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ROMANIA'S FOREIGN DEBT CRISIS IN THE 1980s

Determinants and consequences

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ROMANIA'S FOREIGN DEBT CRISIS IN THE 1980s
Determinants and consequences

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Abstract: *Based on more recent research and evidence, including declassified information regarding the communist period in Romania, the study focuses on examining the 1980s foreign debt crisis context, its determinants and consequences, the impact of internal and external factors, intending to provide an image closer to reality of this dramatic episode. The global economy faced a severe economic and financial crisis at the beginning of the 1980s, when more than 30 developing countries entered default or restructuring on the sovereign debt. In the case of Romania, the impact of the foreign debt crisis triggered in 1981-1982 proved to be extremely hard, worsened by the overlap between the internal vulnerabilities accumulated in previous decades and the external shock coming from the major changes in the global economic, financial and geopolitical context at the end of 1979. The FED monetary policy at that time has led to the explosive rise in interest rates of the outstanding loans contracted from international commercial banks, to which Romania was highly indebted. The decision of simple-minded Ceausescu to liquidate the foreign debt and other serious errors concerning the crisis management had a destructive impact on the Romanian economy, which degenerated in a system crisis ended with its implosion in December 1989. Some consequences of the foreign debt crisis were felt also afterwards, slowing down significantly the pace of Romania's transition to the market economy.*

Keywords: *foreign debt crisis; oil crisis shocks; IMF; FED monetary policy; interest rates; sovereign debt restructuring; Romania*

JEL: *B22, E44, E62, F34, H63, N44*

Introduction

The concept of a multilaterally developed socialist society (SSMD), as a phase and a prerequisite for Romania's advance towards communism, launched by Ceausescu at the IXth Congress of the Communist Party of June 1969 and established as a program at the XIth Congress in November 1974, proved to be pure propaganda, having no theoretical, scientific or economic-social foundation and not being recognized in any other country in the communist bloc.

According to the claimed desideratum, situated nevertheless outside the economic realities, Romania should have exceeded the stage of medium development since the 1970s, although the authorities in Bucharest themselves, in relations with the IMF (which Romania joined in 1972) provided data from which it resulted a GDP per capita under $ 500, and then strived and managed to obtain the status of a developing country in order to benefit from loans at lower interest rates. But Romania had not reached the stage of a country with medium level of development even in the 1980s.

According to a study developed by the Institute of Socialist Economy on the evaluation of the stage of Romania's economic-social development compared with 118 countries in 1982, the synthetic indicator calculated based on the factor analysis method by aggregating 21 indicators, ranked Romania the 31st, behind most European countries, including those of Central and Eastern Europe, belonging to the group of developing countries (IES, 1985, pp. 188 -189).

At the beginning of the 1980s the world economy was hit by a severe economic and financial crisis, the first one in history on a global scale, affecting more than 30 developing countries, as a balance of payments crisis, that induced the renegotiation and the sovereign debt restructuring, respectively.

Under these circumstances, the external shock on the financial situation of Romania was amplified by the internal vulnerabilities accumulated in the 1970-1980 decade, which led to the exacerbation of the adverse economic and social effects of the foreign debt crisis, that degenerated, due to huge errors in its management, in a system crisis at the end of 1989.

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This study, based on more recent information - including those declassified - on the communist period in Romania, is trying to deepen the knowledge regarding the context and causes of the external debt crisis, as well as the impact of its determinants, for a better evaluation of realities of those times, with consequences felt today.

1. Domestic vulnerabilities accumulation in the pre-crisis period

The pillar of the SSMD's construction program consisted of socialist industrialization, based on the development of the heavy industry with its pivot, the machine-building industry, by forcing the achievement of an average growth rate of 10% annually in the 1970-1980 decade, neglecting de facto the development of agriculture, the production of consumer goods and the services sector, which led, by oversizing the industry and the violation of the balances at the micro and macroeconomic level, to an implosion of the socialist economy system. The comparative analysis undertaken by Janos Kornai (1992), showed that, in Romania, the economic growth was "forced", being characterized by the extremely high rate of investments, the low consumption, the specific set of priorities, the predominantly use of the extensive development factors, the emphasis on quantity at the expense of quality.

The violation of the balance between the production of the means of production (group A) and that of the consumer goods (group B) was determined by the allocation, between 1951-1987, representing between 83.4% and 89.2% of the investments in industry for Group A, which increased its share in industrial production from about 50% in 1951 to about 75% in 1987, compared with 62% in Hungary and Bulgaria and 65% in the GDR (Georgescu, 1989, p. 147).

In the context of Romania’s opening to the West since 1970s, it should be emphasized that an accelerated development of the industry took place, mostly, by massive investments in industrial plants equipped with imported machinery and technologies, some through the creation of joint ventures and others financed through bilateral government loans, as well as from private international banks, to which Romania had access due to its accession to the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) in 1972. Due to a multitude of factors, the most important to be examined further, the use of domestic material, human and financial resources, to which significant loans from abroad were added, to finance the investment projects, proved to be finally inefficient, unable to provide the expected support for the foreign debt repayment according to the maturities assumed, which became, by the end of 1980, unsustainable.

Between 1973 and 1980, Romania received from IMF financing of about $ 700 million, through two stand-by agreements, to which two Clearing Facilities for the balance of external payments were added, used for reimbursements of loans from commercial banks, as well as for covering the exports decline as a result of the damages caused by the 1976 floods and the 1977 earthquake.

As for the IBRD, Romania has signed 33 loan agreements, totalling $ 2.2 billion, of which about $ 1 billion for financing several industrial plants (of which about 60% in petro-chemistry and iron and steel sectors), $ 936 million for agriculture (of which $ 600 million for the irrigation system) and about $ 200 million for transportation infrastructure. However, due to the exceeding of the projected deadlines, in some cases, the IBRD credits were not drawn within the terms settled by the agreements, incurring additional fees or penalties and, in other cases, the maturities of loan repayments became due even before putting into operation the respective facilities. A 1981 report of the Economic Section of the Communist Party regarding the credits from the IBRD specified large delays in putting into operation of many industrial and energy facilities, that generated significant losses, among which: Bacau and Craiova chemical companies, Zalau and Drobeta Turnu-Severin tire companies, Rulmentul Brasov, Otelinox Targoviste, Turceni Thermal Power Plant II (Tiu 2015, p. 64).

The rigidities of the command economy system was the cause of keeping a series of energy-intensive industries whose development was designed in the late 1960s under certain conditions of the international context, without understanding the vital importance of their adjustment to the changes in the world economy, functioning with losses and influencing, through contagious effects, the whole economy. In an analysis of the

Romanian economy, achieved by Bachman and Keefe (1991) at the request of the US Government, in a way that we consider objective, it was mentioned that, in the vertical of the economy, most of the branches of the manufacturing industry, especially the chemical, petrochemical and steel industries, developed oversized capacities in relation with the resources of raw materials and energy, the parameters of efficiency, as well as the markets demand. They pointed out that one of the main determinants of the economy's weak performance was the energy sector inefficiency, while the objective of achieving the energy independence claimed in November 1979 - rather as a momentary reaction to the oil crisis - proving totally unrealistic. Caused by an increasing deficit in the domestic energy production, on the contrary, a rise in the degree of dependence on imports, especially oil, occurred.

In order to reveal the overall economic and financial situation in Romania, which became critical at the end of the 1970s, at all levels, in spite of foreshadowing a series of weaknesses as signals for entering a system crisis, we mention some defining aspects pointed out in the Report on the analysis based on the balance sheet of economic-financial results obtained in 1979, quoted as "strictly secret" at the time, being intended only for the members of the Executive Political Bureau of the Communist Party (Axenciuc, 2012, pp. 433-494).

Thus, the main domestic factors that had a negative influence on the economy in general and on the industry in particular, were the non-fulfilment of the production plan, the existence of unsaleable finished production stocks, the consumption norms exceeding, the lack of substantiation of the programs to reduce the production costs, the failure to meet the designed parameters for a number of 83 industrial facilities, the overtime manufacturing cycles, the failure to perform the tasks of manufacturing new products. At the end of 1979, there were more than 33,000 economic contracts with arrears, out of which about 2/3 in the field of machine-building and chemical industry, totalling 40.9 billion lei[2] (idem, pp. 455-457) .

One of the most serious issues, which accentuated the deterioration of Romania's economic and financial situation - both internal and external - at the end of the 1970s, was the failure to achieve the investment plan, with an amount of 28.6 billion lei and also the plan to put into operation the fixed assets, with an amount of 82.2 billion lei, under the conditions in which the facilities under construction had reached an oversized and unsustainable number (over 10,000 construction sites). At the same time about 900 important production capacities at the national level, and other 3,000 investment objectives of lower approval competence were delayed. Other delays were caused by the lack of machinery supply amounting to 91.5 thousand tons from the domestic producers and of equipment non-delivery from import amounting to almost 1 billion dollars, as well as in the assembly of machinery spare parts that were stuck in stocks (Idem, p. 459).

As a result of the economic indicators deterioration and the failure to achieve the planned physical production, at the end of 1979, Romania's financial situation was burdened by losses of about 23 billion lei. Beside the non-fulfilment of the plan indicators, these losses were caused by the negative effects caused by the foreign trade inefficiency and the interest payments related to foreign loans, exceeding the projected level in the state budget, as well as by unfavourable exchange rate differences registered by banks. Because of the larger external loans needed to finance the balance of payments, as well as the extremely high interests paid abroad, the Romanian Foreign Trade Bank could not cover the amount of 2.1 billion lei, the funds provided for this from the state budget being exhausted (idem, p. 471).

Summarizing the aspects mentioned above, at the beginning of the 1980s, Romania faced major domestic vulnerabilities, both of economic nature, due to the inefficiency of the industrial and agricultural structures, and financial one. However, the external shock caused to Romania by the international context changes was the decisive blow that led to the country's fall into a deep foreign debt crisis, to be presented further on, based on the analysis of the global economic and geopolitical events.

[2] In the period 1979-1982 the official exchange rate: 1 USD = 4,47 lei.

2. The international context changes in the 1970s and early 1980s

Understanding the international context and the mechanisms of triggering the global crisis is essential to find out the specific causes and the magnitude of its impact on Romania, as well as the extent to which the domestic vulnerabilities mattered, the rigidities of the socialist economic system, the inability to perceive, understand and forecast of the governmental authorities and the country representatives abroad, as concerns the world economy and market evolution, the poor expertise of government caretakers and the Communist Party leadership, mainly of narrow-minded dictator Ceausescu, in the field of banking and international finance, especially on the capital market functioning. These major deficiencies became evident with the impact completely opposite to the intended purpose of the measures adopted to counteract and/or exit from the crisis, first of all, the decision to pay the foreign debt.

The 1981-1983 global economie crisis, somehow predictable, erupted amidst a complex of economic, financial, but also political factors, including geostrategical ones, many of them originating in the previous decade, with cumulative, amplified and propagated effects in time and space, resulting from the escalation of the great economic and military powers confrontation, having as essential stake the hydrocarbon resources control, especially those of the Middle East, which generated a significant repositioning of the international relations balance forces, also under the pressure of emerging countries. These effects have been accompanied by major changes in the conceptual and practical approach to the issue related to efficiency and competitiveness, the use of energy resources and raw materials, pollution and environmental protection, with major impact on stimulating technological innovation and entering another era of industrialization and the development of humanity.

The world's economic stability after World War II and, especially the financial one, was based, in the 1950-1960 and 1960-1970 decades on the Bretton Woods Agreement of July 1944, by which the setting up of the IMF and the IBRD was agreed, in order to support the post-war construction and the global financial system, establishing a set of monetary rules based on the gold-standard and, within it, the US dollar as the main reserve currency and international payment currency, at a parity of $ 35 per ounce, according to which the other convertible currencies were pegged, with a small variation band.

The hypothesis of financial instability developed by Hyman Minsky in the 1970s, theoretically and empirically valid, was verified at the world economy level in the 1980s, considering the impact of indebtedness increase in general and, in particular, the sovereign one, on the behaviour of the financial-banking system, determined, in the context of the excessive credit proportion in financing the investments in progress, the inflation increase and the debt deflationary spiral, were out of the control of the government and the monetary authorities, by the banks absolutist goal in targeting the profit maximizing, under a restrictive context of liquidity and solvency (Minsky, 1976, p. 9). As he was one of the few prestigious economists who opposed the deregulation of the US financial sector in the late 1970s, Minsky, as himself later explained, starting from the fundamental idea that, in the case of a capitalist economy, the financial relationship between the business environment and the banking system determines the creation of a temporary connection between the past, present and future, by crediting investments and increasing fixed assets, emphasized that the stability of this relationship is conditioned by the expected profits attainment, determined, in turn, by the structure of the aggregate demand. The failure to meet the payment commitments, inevitable in an inflationary context counteracted by monetary constraints, leads to a system crisis and the debt rescheduling/restructuring, the situation being similar in the case of loans contracted by population, governments and international institutions (Minsky, 1992, pp. 4- 5).

In August 1971, due to rising unemployment (at 6.1%) and inflation (at 5.8%) in the US, as well as deteriorating budgetary and current account balances as a result of the expenses on the Vietnam War, President Richard Nixon, motivating the need to protect American interests, including stopping speculation on the overvalued US currency, announced the suspension of gold convertibility of the dollar, which generated a shock (Nixon shock) to international currency markets, causing the collapse of the Bretton Woods agreements and inducing a quasi-permanent instability of the global financial system and the capital markets.

Therefore, despite international treaties that established another set of fixed currency parities around the depreciated dollar (December 1971 Smithsonian Agreement), in 1973 the international monetary system switched to floating exchange rates. The US monetary policy led by the Federal Reserve (FED) made a first major change, forcing the key interest rate to remain low, thereby encouraging public and private lending, as well as government and household consumption, to stimulate economic growth, which finally led to a sinuous pace of real interest rate during the 1970s, sometimes dropped in the negative territory as regards the inflation rate, which influenced, due to the indebtedness increase at low costs, all loans, domestic and international, contracted in dollars.

In October 1973, the world economy suffered a first global shock, with the OPEC countries declaring an embargo on oil supplies to some industrialized countries (USA, Japan, UK, Netherlands) suspected of supporting Israel in the Yom Kippur war, which created a breach in the North Atlantic alliance and triggered an oil crisis, the price of which increased in a few months from about $ 3 per barrel to $ 12 per barrel. In 1974 and 1975, the world economy practically stagnated, and the industrialized countries went into recession (the US was hit the worst, suffering a decline in GDP, the inflation rate being between 9% and 11%, the unemployment rising to 8-9 %, and the shortage of gasoline generating queues at gas stations). The recovery of the global economy, started in 1976, lasted only a few years, in 1979 suffering a second oil shock caused by the revolution in Iran, followed by the Iraq-Iran war. The price of oil supplied by OPEC countries tripled and reached $ 36 per barrel in the following year.

The US economy, which, during the 1970s had experienced high rates of inflation, in the late 1979, under the pressure of the second oil shock, reached the peak of the inflationary spiral (over 13%), and in 1980 went into recession again. In October 1979, the FED, which was led by Paul Volcker, nominated only two months earlier, with the claimed purpose of mitigating inflation, but also for responding to concerns about the 12% depreciation of the dollar against the main currencies in 1977-1979, adopted new monetary policies, extremely restrictive, increasing the key interest to 15.5%, unprecedented level.

At a symposium held in 1997, Paul Volcker, recognized that one of the biggest problems of the US banking system was the lack of market discipline, the excesses of the 1980s becoming visible as early as the 1970s. In this context, he remembered that, at the time when he was the FED president (between 1979 and 1987, and earlier, between 1975 and 1979, he had been director of the FED-New York, and between 1969 and 1974, as Undersecretary on International Affairs of the US Treasury Department, he played an important role in President Nixon's decision to suspend the dollar convertibility to gold) thought that, in order to learn a lesson that would discipline the financial market in the US, a first-class bank should go bankrupt, and at worldwide level, a financial bankruptcy of a country would be required, but praying that it would not happen on the North American continent! (Volcker, 1997, p. 90).

In fact, in the early 1980s, hundreds of US banks went bankrupt (including, in 1984, Continental Illinois National Bank and Trust Company, the seventh bank of the system, with assets of $ 45 billion) and, in mid-1982, Mexico went into default. In the first phase, these bankruptcies occurred as a result of the financial market deregulation in 1980 (Law 96-221 The Depository Institutions Deregulation and Monetary Control Act) which allowed the explosive development of mutual funds and investment banks on the mortgage segment, without risk prevention measures, under the evident circumstances of the real estate market growing, which led, in the context of divergent opinions between the regulatory authorities concerning the nature of the problems that had occurred, the economy recession and the double-digit increase in the inflation rate, to a severe crisis and the collapse of the real estate market in many US states, worsened, in the successive phases, by the legislative measures adopted in 1982 (the Garn - St Germain Depository Institutions Act), which relaxed the credit limits and abolished some restrictions on mortgage loans (FDIC, 1997, p. 4-10).

The FED monetary policy, based on extremely high interest rates, that had reached another record level of 20% in March 1980, continued for another three years, but only at the end of 1982 the inflation rate fell below 4%, remaining stabilized at that level for a long time. If for the US this policy ultimately brought the targeted monetary stability, its consequences on the rest of the world were devastating (known as Volcker shock), through contagion and chain effects, leading to an exponential increase in the interest rates by Western commercial banks, severely affecting the developing countries debt, contracted, for the most part, as floating rate loans in dollars. It has been estimated that, compared to 1975-1980, the interest rates of commercial bank loans between 1981 and 1982 were about 23 percentage points higher (Goldsbrough and Zaidi, 1986, p. 150).

Considering that the US was the strongest economic power in the world and the dollar remained the main currency in the financial markets, the decisions made by the Washington Administration throughout the 1970s-1980s, depending on policies for defending and promoting the American interests propagated a number of adverse effects abroad, causing, in a complex international context from an economic and geopolitical point of view and a fragile financial system, a debt crisis in developing countries.

The main vulnerability of the international financial system to the magnitude of foreign debt was created by the high degree of commercial banks' exposure to debtor countries, especially the US ones, whose financial exposure to the developing countries (mainly Mexico and Brazil) amounted in June 1981 to about $ 90 billion, representing over 151% in relation to its own capital. The payment difficulties (which happened in the two above-mentioned countries), caused huge losses to the banks, that, however, were recovered in time, by debt payments rescheduling, finally succeeding to close the balance in profit, due to the increased interests received (Puiu, 1983, p. 105).

A specific impact sharpening the severity of the sovereign debt crisis occurred as a result of major changes in the strategy of international financial institutions concerning the assistance provided to the Member States.

In the IMF terminology, conditionality refers to the measures of economic, budgetary, financial policies that the Fund expects from a country to grant it a credit, this concept experiencing a series of developments, more pronounced in the 1980s, which led, gradually but cumulatively, to a fundamental change in the IMF's relationships with the member countries (Polak, 1991, pp. 2-7).

It is worth mentioning that between 1950 and 1970, more than half of the IMF loans were granted to developed industrial countries, in particular the USA, the United Kingdom and Italy. In the 1970s, most of loans gradually moved, under favourable lending conditions, excessively and without risk prevention measures, towards developing countries and, especially after the crisis of the 1980s, towards high indebted ones.

It should be noted that neither the IMF nor other institutions or officials sent warning signals of the crisis, seeming to be unaware of the excessive lending dangers; on the contrary, they expressed opinions according to which the accumulation of debt would be beneficial, especially by recycling the significant financial surpluses accumulated by major exporting countries (petrodollars) after the first oil shock to importing countries, through commercial banks, which would have helped them to withstand this shock (Boughton, 2001, p. 271). In addition, in providing loans to these countries, the commercial banks relied on the macroeconomic analyses of IMF experts, the financial assistance of the Fund being an intrinsic guarantee of loan repayment. An investigation conducted by the G30 in 1981, just before the crisis broke out, in 52 largest international banks, revealed that most of them predicted that a generalized problem regarding the debts of developing countries was unlikely to emerge, prevailing the idea launched since 1980 by Walter Wriston, president of Citibank, according to which a country cannot go bankrupt. After the debt crisis triggered in 1981, the banking community complained that it was misled by the urges to recycle petrodollars and "blinded" by the Volcker shock (Boughton, 2001, pp. 268 - 274).

If, until 1980, the IMF strategy only recommend policies, more or less general and/or unconditional, following the 1981-1983 debt crisis, which affected more than 30 countries, this strategy changed radically, having as objective the avoidance of debt payments arrears and focusing on the preventive arm by imposing certain conditions in providing the financial support (among others, to slow down industrialization, to increase prices for natural gas and food, to impose budgetary austerity).

The IMF Executive Committee formalized this new strategy in 1980, stating that, for the efficient use of the funds granted to support viable adjustment programs, the stand-by arrangements were to include precautionary clauses, related, if necessary, to the results of the discussions regarding the financing from other sources of the balance of external payments[3].

[3] However, the method of evaluating the extent to which an adjustment program is adequately funded was flexible, on a case-by-case basis, reflecting the diversity of banking circumstances and practices regarding the rescheduling of arrears. Referring to Romania, it was specified that the 1981-1984 stand-by arrangement was resumed in June 1982, although arrears to official and private creditors persisted, due to the fact that the country's government still enjoyed the confidence of the IMF, in particular, from its Executive Director, Jacques de Larosière (Boughton, 2001, p. 477).

A direct consequence of this new approach was that, if the lending banks refused to reschedule the debts of some countries, the IMF would also suspend their access to funding (Boughton, 2001, p. 477). For all four types of stand-by arrangements, the IMF made mandatory the letters of intent from the governments requesting for financial support, with the description of policies intended to be implemented, the performance criteria with quarterly reporting etc. (Gutian, 1981, p. 2).

Starting in the 1980s, the World Bank also imposed Structural Adjustment Programs (SAPs) for debtor countries, focusing on the devaluation of national currencies, the elimination of subsidies, the reduction of spending on education, health and social assistance and so on, the financial support being related to four levels of conditionality: fiduciary, institutional, measurable results and economic policies focused on economic and trade liberalization, price liberalization, privatization and restructuring of state-owned companies (World Bank, 2008, pp. 7-9).

The international events of economic, financial and political nature in the 1970-1980 decade led to the outbreak of a severe foreign debt crisis in the period 1981-1983, a number of 34 countries going bankrupt and renegotiating their debt, to which 12 countries with serious external payments difficulties were added.

3. The foreign debt crisis management and the impact on the Romanian economy

In the early 1980s, the Romanian economy was weakened by vulnerabilities, unperceived and/or not mitigated by the authorities, their accumulation and interaction on the horizontal and the vertical of the economy leading to an increased risk of exposing the country to possible adverse developments, fuelled by both domestic and external factors.

One of the most serious economic policy errors made by the Romanian authorities was the complete ignorance of the world economy trends in the 1970s, the major changes caused by the two oil shocks, as well as the development concept built on the principle of an open economy, under the pressure of the foreign debt precipitous increase followed by the decision to liquidate it, the sudden and profound mutation towards a quasi-total autarchy, with destructive effects on the economy.

In this regard, the oil industry case we consider as the most relevant for emphasizing the costs of these errors, both in generating the foreign debt crisis and managing it, seen also in terms of the two oil shocks of 1973 and 1979 that had radically changed the world economy, with a significant impact on Romania. During the 1970-1980 decade, Romania doubled its oil refining capacities, which reached about 34 million tons in the early 1980s, while the domestic production decreased from 14-15 million tons per annum to 9-10 million tons per annum and the crude oil imports increased from 5-6 million tons to 15 million tons in 1980 (year when exceeded the domestic production) reaching about 20 million tons per annum in the 1987-1989 period. Due to the tripling of the crude oil international prices, in nominal terms, i.e. about 6 times higher in real terms, as a result of the second oil shock of 1979, as well as the increase in imports, the oil bill of Romania exploded, rising from about $ 500 million in 1975 ($ 92/ton) to $ 3.8 billion in 1980 ($ 250/ton) and caused a significant impact on trade deficits in convertible currency (about $ 1 billion in 1979), with direct implications on worsening the current account of the balance of payments.

Bachman and Keefe (1991) estimated that, in 1980, Romania lost $ 900,000 per day from exports of petroleum products derived from imported crude oil. According to another estimate, exports of petroleum products were made at prices up to $ 25/ton lower than the price of imported crude oil, resulting in substantial net losses in 1979 and 1980 (Jackson, 1984). These estimates, which reflect the size of the losses suffered by the country's economy and finance caused by the oil industry at the end of the 1970s, correspond to the figures published by Axenciuc (2012, p. 464) according to which, in 1979, for the imports in convertible currency external prices higher than the planned ones were paid, amounting to about 5.9 billion lei (equivalent of $ 1.3 billion), of which 3.3 billion lei for crude oil imports and 1.5 billion lei for the imports of raw materials for the steel industry. However, as these products accounted for about 40% of the exports in convertible currencies, Romania continued the large-scale processing of imported crude oil in order to obtain the required currency resources for foreign payments. In order to maintain the refineries operational, increasing volumes of crude oil were imported in the 1970s from OPEC countries, and, after the revolution in Iran and the outbreak of the war between Iran and Iraq, from the Soviet Union; based on a barter agreement, Romania imported about 5 million tons of USSR crude oil annually in the period 1986-1989, exporting instead drilling equipment and food products.

Trying to identify the factors that led to Romania's balance of payments crisis, Marvin Jackson (1984) emphasized that, due to some domestic causes, such as the damages caused by the 1977 earthquake, as well as the losses of crops due to the adverse weather conditions in 1980 and 1981, a number of external factors were added, notably the rise in oil prices and interest rates, as well as the recession in the Western countries. He also mentioned the impact of the economic policy errors of the Bucharest authorities, which, during the pre-crisis period, promoted an excessive growth of investments, especially in the oil refining capacities, with effects on the deterioration of Romania's trade and energy balances, due to the increase in the demand for raw materials required by finite products manufacture intended for exports in convertible currencies, as well as imports of technologies and equipment, and, in the post-crisis period, adopting measures to push the exports in convertible currencies, at any cost and without limits, and to cut imports.

As concerns the external payments, Romania's financial situation deteriorated since 1980, when there was also a trade deficit record in the convertible currencies, i.e. about $ 1.7 billion, with delays in the repayment schedule related to the short-term commercial loans for imports, which had reached over 1/5 of the total foreign debt, compared with only 4% in 1976 (Stroe, 2000, p. 70).

The breakdown of the foreign debt on creditors and according to the interest rate type, proved totally unfavourable to Romania. At the end of 1980, out of about $ 10 billion total foreign debt, only about 14% was to the IMF and IBRD, and about 20% related to bilateral government loans, contracted at fixed interest rates; most of the foreign debt (about 2/3) was caused by the private commercial banks, including the short-term loans, contracted at floating interest rates, which, under the international financial context of the 1979-1980 period, had reached two digits, triggering the explosion of this foreign debt component.

In fact, according to the IMF documents, the balance of payments crisis in Romania triggered in 1981and was listed as a debt crisis (Boughton, 2001, p. 274, Table 6.1 Commercial Debt Crisis 1980-1989), along with dozens of other developing countries in Eastern Europe, Latin America, Africa and Asia4.

Thus, at the beginning of 1981, the Bucharest authorities were forced to resort again to the IMF financial assistance, a three-year stand-by agreement being negotiated until May of that year. Although some members of the IMF's Executive Board expressed scepticism, including its president at that time, John F. Williams, who questioned Romania's ability to manage the $ 10 billion debt in convertible currencies and believed the country would have need both major policy changes and the cooperation with foreign institutional or private creditors, the stand-by arrangement was unanimously approved (SDR 1.1 billion representing 300% of Romania's quota, that is about $ 1.3 billion, the first installment of SDR 140 million, that is about $ 165 million, being drawn immediately).

In the second half of 1981, the IMF's confidence in the Bucharest authorities deteriorated, especially due to the failure of the Romanian banks to comply with the international payments rules and mechanisms, including by check kiting, the foreign lending banks beginning to withdraw their deposits from Romania and cancelling the interbank credit lines. To these fears, the contagion threat of the foreign debt crisis triggered in Poland was added.

The refusal of the Bucharest authorities to discuss and reschedule the debt repayments led to the increase of the arrears to the foreign banks amounting to over one billion dollars at the end of 1981. Under these circumstances, Romania totally lost the access to new loans and, as a result, came out of the conditions stipulated by the stand-by agreement with the IMF. Although IMF officials met, in the autumn of 1981, with the major bank creditors of Romania so as to be informed about the nature and extent of the payment problems and the measures taken by the authorities in order to consolidate the country finances, accepting the rightness of doubts expressed by banks regarding Romania's commitments to reform, the Fund refused to drop out the stand-by agreement terms, but did not approve either the release of the next installment of 76 million SDR planned for November 1981. Although the Romanian government had committed, according to the agreement with the IMF, to slow down the pace of industrialization, to reduce subsidies, to devalue the

[4] It should be noted that Jeffrey Sachs, at that time advisor to the Government of Bolivia, decimated by a 5-digit inflation crisis, in a financial article written in 1986, stated that, for the debtor countries, it would have been preferable to reject the debt repayments to commercial banks in the early 1980s, as they did in the 1930s! (Sachs, 1986, p. 411).

leu and unify exchange rates, their commitments proved to be formal, the decision-making remaining hyper-centralized, the incentive system unchanged, and the targets (production and exports) continuing to represent benchmarks for directors of companies, to the detriment of profitability and efficiency (Crane, 1985, p. 129).

In a comparative study upon the request of the US Department of Defence, Keith Crane (1985), approached the issue of financial credibility and solvency of some Eastern European countries, noting that three socialist countries in the region, i.e. Poland, Hungary and Romania, faced a major crisis of the balance of external payments, ceasing the payments related to the foreign debt service and entering default in 1982. The analysis of the adjusting costs of this situation showed major differences between the three states, due to the manner in which the authorities understood to manage the balance of external payments crisis.

The governments of Poland, which, at that time, was not even an IMF member, with a foreign debt of about $ 25 billion in 1980, and Hungary, with a foreign debt of about $ 8 billion, perceived reforms as the only way out of the deadlock, managing to get a favourable treatment from the international creditors concerning the debt payment rescheduling, by taking measures to liberalize the economy in order to allocate resources more efficiently and increase the profitability of companies, resorting to a gradual reduction in imports, without affecting the living standard of citizens (Crane, 1985, p. 135). One of the most important factors allowing the adjustment of external debt payments at reasonable costs in these countries (Poland's foreign debt even doubled in the period 1981-1989) it was that international banks continued to maintain open the short-term commercial credit lines.

On the other hand, the Romanian authorities led by dictator Ceausescu made manifold errors, losing the confidence of the lending commercial banks which suspended any commercial credit line and/or the supplier credit, the imports of the country having to be paid in cash. In 1981, despite the introduction of a law meant to recover the external credibility of the Romanian foreign trade enterprises (ICEs), which obliged them to offset the import payments in convertible currencies with the currency receipts from exports, an immediate opposite effect occurred, i.e. the non-payment of import bills by the ICEs; moreover, both the government institutions and the ICEs representatives abroad (from the commercial agencies/offices under the Romanian embassies), as well as of Bancorex-Romanian Foreign Trade Bank (including its five subsidiaries abroad) were no longer responding to telephones, telexes, letters (Crane, 1985, p. 110). This negativist behaviour accentuated the distrust of the international banking and business circles in Romania, the uncertainty around the Bucharest authorities' intentions, causing them to suspend in 1981 and 1982 all the financial transactions until the full payment of the outstanding debts and arrears. Thus, at the end of 1981, when the foreign debt amounted to almost $ 11 billion, and in the first half of 1982, Romania was in a situation of sovereign default, the IMF assistance being stopped de facto, with outstanding arrears to about 300 Western banks, other loans from several banks in the USSR and the Middle East being added to these.

In January 1982, Romania began negotiating with a consortium of nine banks from six Western countries, with the participation of IMF officials, as observers. Until April 1982 the talks continued, but meanwhile the arrears to foreign commercial banks were approaching $ 3 billion, including principal, interests and penalties. The IMF's hopes for Romania to reach a rescheduling agreement with commercial banks, which could have led to the re-entry into the stand-by agreement, were not fulfilled, the Fund officials withdrawing from the negotiations, proposing instead a symbolically token drawing of DST 10 million (proposal supported by the IMF Executive Director, Jacques de Larosière, and approved by the Executive Committee on June 21, 1982[5], specifying that this decision, unique in IMF history, should not have become a policy practice), the release of the next installments being postponed until the issue of arrears to commercial banks would be resolved, as a signal that the IMF still had some confidence in the Bucharest authorities in implementing the agreed adjustment program. One of the few commitments respected by Romania was the adoption, in June 1982, of Decree no. 240, by which the prices and tariffs for electricity, heat, natural gas and other fuels were increased by 20%, and reducing quotas and maximum consumption norms, both for the companies and population, which triggered an explosion of the inflation rate (17.8%) in that year, a unique case for the entire period of the command economy.

[5] It should be mentioned, however, that the meeting of the IMF Board of Directors on Romania, initially scheduled for June 14, 1982, was postponed by one week, during which the management of the Fund obtained assurances from the Paris Club creditors that the results of negotiations with Romania could be positive, just this, according to the memo of the meeting, representing in fact the essential condition for the reactivation of the agreement (Boughton, 2001, p. 323).

The signal of the stand-by agreement reactivation was of crucial importance for the governmental creditors, who expressed their readiness to negotiate the debt rescheduling. In July 1982 a meeting of the Paris Club took place, was part of this package and concluded with success. Romania's negotiations with the creditor commercial banks continued for several months starting in the autumn of 1982, and in December, managed to sign a rescheduling agreement of $ 4.8 billion over a period of 6 years, ending the phase of the debt crisis and allowing the stand-by agreement with the IMF to resume.

At the National Conference of the Communist Party in December 1982, although it was admitted that the worsening of the global crisis and the maintaining of high interest rates at international level represented "a brake in the resumption and recovery of the economic activity" (***, 1984, p. 7) the Romanian economy registering lower growth rates in the 1980-1982 period, due to the reduction of the import dependency, and it was stated that Romania "did not have and does not intend to promote an autarchic economic policy" (Idem, p. 12). But only a few pages further it was specified that "we do not intend to slow down the speed of advancement or to provide shelter until the storm passes "(idem, p. 14) and that, by 1983, over 90% of the primary energy consumption would have been ensured by own forces, under the conditions of "reduction of the current energy consumption by 10-15% ".

The only rational measure, dictated more by necessity, announced during this Conference was not to start new investments in 1983 and to concentrate on the finalizing and putting into operation the 500 industrial and agricultural capacities, investment projects initiated in previous years, which saw delays in completing the construction works. Many investments projects registered significant delays (instead of 2-3 years they were completed in 7-8 years, and others in 10 years), causing losses to production and exports, and other resulted from the moral depreciation of machinery and technological downgrading were added.

In fact, it was the moment when, refusing to acknowledge the dramatic financial situation of Romania's external balance of payments, it was decided to take autarchic measures (together with drastic reduction of imports) that worsened the internal vulnerabilities, with the claimed objective to not resorting to external loans and to reduce the foreign debt by half until the end of 1985, followed by its complete liquidation in the next 2-3 years (idem, pp. 15-16).

In the years following the decision to liquidate the foreign debt, which became the single-minded purpose of the economic system functioning, the whole set of measures undertaken by the authorities, in the absence of any rational foundation, focused exclusively on the achievement of trade surpluses in convertible currencies, as the only foreign exchange resource for debt-related external payments, which generated destructive effects on the economy. Professors Carmen Reinhart and Kenneth Rogoff, two of the most remarkable analysts of the issues concerning the financial crises argued that debtor countries can usually make outstanding payments to creditors, even under difficult and painful conditions, but the main problem facing leaders being that of the bearable limit assessment. In this context, they gave the singular example of the irrational decision taken by Nicolae Ceausescu, to pay, in just a few years, an external debt of 9.5 billion dollars, forcing the companies to reduce their production through savings of electricity, and the population to withstand the cold of frosty winters, instead of renegotiating and rescheduling Romania’s debt, as the other developing countries did during the 1980s crisis (Reinhart and Rogoff, 2009, p. 52).

The anti-economic measures, formally packaged under the concept of “new economic-financial mechanism” introduced in the early 1980s, based on the principle of companiesț self-management and self-financing, the program of energy consumption rationalization, the programs of organization and modernization (without investment expenditures), the territorial program of each county self-management and self-supplying etc., all were designed, in essence, as a set of actions intended to fulfil a dual but contradictory function: minimizing imports versus maximizing exports.

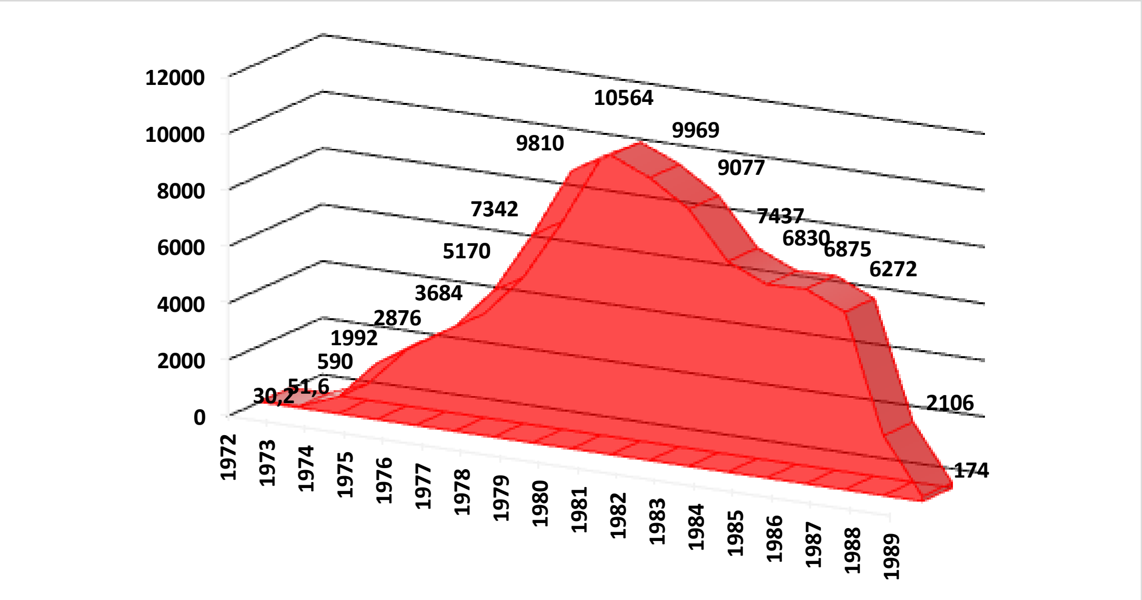
In fact, on the import side, the sharp and drastic reduction, mainly from the developed countries, induced a shock difficult to be absorbed by a weakened and dysfunctional economy, the most severely affected being the industrial sectors, both in terms of resources, raw materials and energy, as well as spare parts and consumables for the previously imported machinery and equipment. The experiment of replacing these imports with their "assimilation" in the country, i.e. domestically manufactured, proved, all in all, totally unsuccessful. However, under the pressure of identifying solutions to substitute imports by the country’s own efforts, it should be noted some exceptional achievements in the 1980s: the Institute of Scientific Research and Technological Engineering for Machine Tools successfully coordinated a research and design program (high precision equipment, numerically controlled machines, automatic lines and flexible manufacturing systems) that contributed to place Romania among the first ten countries in the world in the field of machine tools production (Bachman and Keefe, 1991, p. 172).

On the other hand, on the export side, by forcing their increase to excessive levels under the conditions of cutting the complementary imports and ignoring the essential efficiency parameters, the low value-added exports (oil products, iron and steel, chemical fertilizers, cereals, meat), materialized, in fact, in losses to companies and economy. It should be mentioned that not only the Romanian companies suffered, but also the joint ventures, in 1986 their activity resulting in losses/debts of $ 250 million (Axenciuc and Georgescu, 2017). The development of currency-bearing special operations by some specialized ICEs, although it had a certain contribution to the covering of the foreign exchange shortage, many of them were carried outside the international trade regulations, sometimes violating the embargo regime or international sanctions, Romania becoming a negative example within the international affairs environment.

A secret report of the CIA in 1985, approved to be released (partially) in 2010, specified the implications for the USA of the deteriorated situation in Romania, including in the case of Ceausescu's exit from the scene, which could have happened any time in a few years to come, and highlighted a dilemma for Washington administration: granting financial assistance to a bankrupt state or leaving the field free to the Soviet Union interests (CIA, 1985, p. 17).

The anti-economic measures taken by the totalitarian regime were accompanied by anti-social measures, adopted since 1980 and continued throughout the decade, as an effect derived also from the Ceausescu’s decision to pay the foreign debt, through imports cutting and forcing exports, which severely affected the living standard and health of the population (the “scientific” food program for the population, the rationalization of food consumption, the issuance of stamps for the purchase of bread, sugar, oil - sanctioning those who made food stockpiles - reductions or interruptions in the supply of natural gas, electricity and heat, including public lighting, the rationalization of retail gasoline etc.) that led to increasing social tensions.

Finally, under the exceptional conditions described above, by achieving foreign trade surpluses totalling about $ 18 billion in 1982-1989, Romania made the last debt-related payment in March 1989 (see Figure 1).



Source: UN National Accounts Database.

Figure 1 The foreign debt of Romania, 1972 – 1989 (USD mill.)

The economic and social costs of the foreign debt payment in 1989 were dramatic. A suggestive image of the difference between the communist propaganda and the economic realities could be reflected by considering the illusory character of the objective launched at the 13th Communist Party Congress of November 1984, according to which Romania would achieve, in 1990, a general level of industry's production, as well as the quality and technology in this sector, comparable to the developed countries' ones (***, Vol. 28, 1985, p. 36).

The analysis of the economic and social development level of Romania in 1989 (Grigorescu, 1993) compared to 24 European countries, revealed, according to an aggregate indicator, the peripheral position of Romania (ranked the last but one), significant gaps at most of the twenty partial indicators being maintained, some even higher than those resulted from a similar study in 1982. This analysis emphasized also the high energy intensity of the economy, the primary energy consumption per unit of GDP being almost 10 times higher compared to developed countries, and the share of primary energy imports in the balance of resources increasing to about 40% in 1989, against 28% in 1980.

In 1989, Romania's economy was marked by major inbalances, in the structure by sectors and branches, with a service sector much behind the industry, which was also characterized by severe physical and moral degradation of the production machinery and equipment. The low productivity in manufacturing, the main branch of the economy, is explained by the lack of correlation between the production capacities and the domestic energy and raw material resources, the high energy intensity of many industries, the outdated technologies, the industrial development policies failing to take into account the requirements of international specialization and the product competitiveness increase.

As shown by Aurel Iancu (2002, p. 65), the general feature of the Romanian industrial system during the socialist period consisted in oversizing, a huge construction carried out over the decades, which absorbed massive but inefficient investments, by ignoring the changes in the internal and external markets, and functioning more according to the rules of an autarchic economy. This system aimed at covering the great diversity of domestic needs, most products being manufactured in large enterprises, having almost complete production cycles, vertically integrated after the classical Fordist model, so that the transition of Romania to the market economy, including prices and trade liberalization, together with the start of European and world markets integration, caused a rapid disintegration of the system.

Among the examples of totally unprofitable investments, making losses to the Romanian economy, could be mentioned: Siderca Călărași Steel Works, which costed about $ 2 billion (financed including from external loans), was practically liquidated after 1990, recovering only one percent of the costs; the Danube-Black Sea Canal was put into operation in 1984 (also projected for the transport of iron ore and coal for Siderca, i.e. for its exports of steel products), whose costs amounted to about $ 2 billion (financed partly by BIRD credits, but also by commercial banks) and which worked at 1/10 of the capacity; the Krivoi Rog Iron Ore Enrichment Works (Ukraine), to which the Romanian companies invested 800 million dollars until 1989, projected to be recovered from the iron ore pellets for Sidex Galați, the unfinished works being stopped in 1990.

The deep restructuring of the industrial system in Romania during the transition to the market economy was characterized by the loss of about 2.5 million jobs, as well as the companies resizing. Compared to an average of about 1800 employees per company, registered in 1990, in 2015 the average number decreased to 27 employees per company, i.e. more than 65 times (Chivu, Ciutacu and Georgescu, 2017, p. 64). The extent of the destructive costs of the anti-economic policies, especially in the 1980s, on Romania's financial situation and its development prospects is revealed by the fact that, during the period 1990-2010, a number of over 1200 companies with over 1000 employees each, most of them in the extractive industry and manufacturing, faced shut-down, bankruptcy or privatization under unfavourable conditions.

Final remaks

In conclusion, Romania's foreign debt crisis in 1981-1982, triggered by the domestic vulnerabilities accumulated in previous decades, was exacerbated, in a severe manner, by the external shock caused by major changes in the global economic, financial and geopolitical context at the end of 1979. Amid these changes, the double-digit increase in the FED interest rate caused an explosive rise in interests by the international private commercial banks, affecting mainly the outstanding floating rate loans, the global financial distress about to occur being feed also through the introduction of conditionalities on financial assistance granted by international financial institutions. In this unfavourable context, while the developed countries entered recession in the late 1970s, quickly extended on the global scale, a large number of developing countries, including Romania, defaulted on sovereign debt and/or restructured it in the 1981-1983 period. Ceausescu's decision to liquidate the foreign debt and the errors in the crisis management had a destructive impact on the Romanian economy, felt also after 1990, slowing down significantly the pace of the transition to the market economy and the development gaps catching-up.

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