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FM WARSAW 310800Z DEC

TO PRIORITY FCO
TELEGRAM NUMBER 558 OF 30 DEC.
INFO PARIS WASHINGTON BONN UKREP BRUSSELS ROME

FINANCIAL ASSISTANCE FOR POLAND

COMMERCIAL COUNSELLOR CALLED TODAY TO SEE WOLOSZYN
(BANK HANDLOWY) VICE-PRESIDENT SZCZEPKOWSKI
WHO WAS IN RECENT POLISH DELEGATION TO CREDITORS MEETING
IN PARIS WAS ALSO PRESENT.

2.   WOLOSZYN SAID THAT POLAND'S EXPORT PERFORMANCE HAD
DETERIORATED AFTER AN ENCOURAGING FIRST HALF OF 1980.
DECEMBER LOOKED A PARTICULARLY BAD MONTH.
GOVERNMENT WERE NOW EXPECTING A HARD CURRENCY BALANCE
OF TRADE DEFICIT OF ABOUT DOLLARS 900 MILLION ( IMPORTS
WOULD BE ABOUT SAME LEVEL AS IN 1979) ALTHOUGH
BALANCE OF PAYMENTS DEFICIT WOULD BE LESS THAN IN 1979.
HARD CURRENCY DEBT HAD GROWN TO AROUND DOLLARS 23 BILLION
POLAND HAD MANAGED TO SECURE FINANCE FOR 1980 DEBT
SERVICING AND TRADE SHORTFALL.

3.   IN 1981 POLAND WOULD NEED TO FIND ABOUT DOLLARS 8 BILLION
TO SERVICE HARD CURRENCY DEBTS ( INCLUDING INTEREST).
VIRTUALLY ALL WOULD BE COVERED BY HARD CURRENCY EXPORTS,
BUT POLAND WOULD NEED CREDIT FOR ESSENTIAL IMPORTS.
MOST WOULD HAVE TO BE GOVERNMENT BACKED. DEBT SERVICING
PROBLEMS WOULD BE PARTICULARLY ACUTE IN FIRST TWO MONTHS
OF 1981 WHEN OVER DOLLARS 1.2 BILLION WAS DUE TO BE REPAID.
BANK HANDLOWY WOULD ADVISE US OF THE MAIN PROJECT-RELATED
PAYMENTS DUE IN THIS PERIOD - THE AGREEMENT TO DEFER
REPAYMENT OF THE FIRST INSTALLMENT OF PRINCIPAL ON THE
LOT PROJECT LOAN AT THE END OF NOVEMBER HAD COME TOO LATE,
AND THE MONEY HAD BEEN PAID OVER ( BANK HANDLOWY WOULD
BE RELIEVED IF SOME MEANS COUD NOW BE FOUND OF RETURNING IT)
IT WAS THE BANK'S FIRST PRIORITY TO AVOID DEFAULTING ON ANY
LOAN REPAYMENT.

4.   POLAND DESPERATELY  NEEDED BRIDGING FINANCE OVER THE
NEXT FEW WEEKS SO THAT SHE COULD MEET HER COMMITMENTS.
AS AGREED IN PARIS RECENTLY SHE WOULD SEEK SUCH HELP
BILATERALLY WHILST A WIDER, CONCERTED ARRANGEMENTS WAS
BEING EVOLVED. AS SOON AS WORD WAS FORTHCOMING FROM THE
MINISTRY OF FINANCE A FORMAL APPROACH FOR URGENT HELP
WOULD BE MADE THROUGH THE BRITISH EMBASSY IN WARSAW,
AND BY THE POLISH EMBASSY IN LONDON TO ECGD. THE CONTACTS
MADE WITH HM TREASURY IN PARIS WOULD ALSO BE RENEWED

5.    IN RESPONSE TO QUESTIONS ABOUT  THE EXTENT OF CMEA
FINANCIAL HELP, WOLOSZYN SAID THAT HARD CURRENCY AID
FROM THE DDR WOULD NOT BE USED TO MEET PAYMENTS OBLIGATIONS
BUT WOULD BE ADDED TO POLAND'S RESERVES. THE HARD CURRENCY
LOAN OF ONE BILLION DOLLARS FROM THE USSR HAD ALREADY
BEEN USED TO MEET EXISTING OBLIGATIONS ( WOLOSZYN DID
NOT DISSENT WHEN MELHUISH SUGGESTED THAT IT HAD BEEN
USED TO FILL THE 1980 BORROWING SHORTFALL).
ON THE BASIS OF EXISTING AGREEMENTS THE ONLY HELP
STILL OUTSTANDING FROM THE USSR WAS IN THE FORM OF
QUOTE HARD CURRENCY GOODS UNQUOTE, WHICH WOULD BE DELIVERED
DURING 1981.

6. THE CONVERSATION ALSO TOUCHED ON THE PROBLEM OF
DELAYED PAYMENTS WOLOSZYN SAID THAT THE BANK WAS PARTICULARLY
SENSITIVE TO CASES OF ECGD-BACKED DEBTS, AND SEEMED GENUINELY
SURPRISED THAT SEVERAL OF THESE REMAINED OUTSTANDING.
HE UNDERTOOK TO CHECK THE POSITION ON THEM.

7.    FINALLY, WOLOSZYN SAID ONCE AGAIN THAT POLAND WAS
LOOKING FOR REFINANCING FOR HER OUTSTANDING DEBTS,
NOT RESCHEDULING. COMMERCIAL BANKERS TO WHOM HE HAD SPOKEN
SHARED HIS VIEW THAT THIS WAS THE BEST APPROACH. FRANCE
AND ITALY SEEMED WILLING TO PROVIDE REFINANCING AID.
THE US WAS A PROBLEM, PARTLY BECAUSE OF THE CHANGEOVER
OF THE ADMINISTRATION BUT ALSO BECAUSE OF THE VERY HIGH
RATES OF INTEREST POLAND WAS PAYING ON CCC CREDIT.
MELHUISH SAID THAT BRITAIN WAS WILLING TO HELP BY
PROVIDING CREDIT FOR PURCHASES OF BEEF, BUTTER AND BARLEY:
AND SYMPATHETIC CONSIDERATION WAS BEING GIVEN TO POLAND'S
REQUESTS FOR OTHER KINDS OF FINANCIAL HELP ALTHOUGH
NO FINAL DECISIONS HAD YET BEEN TAKEN.


PRIDHAM

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POLAND SPECIAL STANDARD
EESD                                    COPIES TO
CSCE UNIT
CONS D                                  PS/S OF S  }
CONS EM UNIT                            MR DICK    }  DOT
NAD                                     MR POWNALL }
SED                                     PS/CHANCELLOR }
WED                                     SIR K COUZENS }  TREASURY
ECD (E)                                 MISS BAKER    }
ESID
TRED                                    MR P J BULL  BANK OF ENGLAND
ERD                                     MR COTTERILL  ECGD
SEC D                                   MR WOOLGAR  D/EMPLOYMENT
OLA                                       CAXTON HOUSE  TOTHILL STREET
MAED
UND                                     MR K WILKES  MAFF
CABINET OFFICE