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**Working Record of a Conversation of Prime Minister
Mazowiecki with Secretary of the Treasury of the
United States N. Brady**

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Summary:

Mazowiecki and Brady discuss Poland's debt and potential solutions, and Poland's transition from a communist economy to a capitalist economy.

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Working record of a conversation of Prime Minister Tadeusz MAZOWIECKI
with Secretary of the Treasury of the United States N. BRADY
Washington, March 21, 1990.

Prime Minister T. Mazowiecki raised the debt problem. "This is a great burden on our economy," he said, interest accumulates, debt increases. This affects our political situation. We want reconciliation with Germany, and we do not want dependency. It so happens that the country that was defeated in World War II is now the biggest power. We are therefore referring to some of the easing mechanisms that this country benefited from in its development, namely the London Agreement of 1953.

I understand that it is not a simple issue. The US is looking at the issue of debt reduction as a precedent. But we are also a kind of precedent. No one in the world before us has carried out the experiment of transition from communism to a free market economy. As I said in the White House, we must succeed.

We value your plan very much. But its realization covers only 1/3 of our debt. The remainder is sovereign debt. I do not expect your answer now but understanding of the idea that the US will find a special solution toward Poland."

"I understand," said N. Brady, you mentioned sovereign debt. This is a concern for the President and the Secretary of State. But we in the treasury need to take up this issue in detail.

Poland will have to obtain from governments the conditions of relief treatment during the year when our plan is in operation. However, it is quite awkward to go to commercial banks, and at the same time ask for debt reduction and new loans. It is a universal truth that banks which have canceled debt do not provide new loans. I do not know whether the same principle applies to sovereign debt. But the logic is the same after all. Therefore, it may not be in your interest to ask for this.

In this context, the situation of the US is unique. In our debt reduction country is perceived as a form of buy-back of banks by the government, which makes a very unfavorable impression.

I understand the importance that Poland attaches to writing off sovereign debt. I would like to point out that much has already been included in the Paris Club arrangements, including the complete elimination of payments for 1990. Therefore, it is in the interest of Poland to address the problem of commercial debt. The first to be dealt with are creditors, so-called "juniors", i.e., those that have the lowest level of debt. Since you have no payments that fall due this year, you need to focus on obtaining commercial bank credit reduction as soon as possible. During my last visit to Europe, I spoke to the French and British banks, and I am sure you can make progress on this."

"We are very grateful," said Deputy Minister Dąbrowski, "that the US Government and you personally supported our efforts to restructure debt vis-à-vis private banks. On our part, we will do everything we can to enter into negotiations with them. On the other hand, the debt-to-government problem remains a great future concern. Poland has a specific debt structure - it is by far mostly sovereign. I agree that efforts to reduce this debt may have unfavorable consequences on the financial market. But we are in a situation where there is no way out.

The burden of the debt is so large that it cannot be repaid. All the more so, that as a result of implementation of an austerity program, we have entered the stage of economic recession. We have managed to combat high inflation. But it will be very difficult to get out of the recession without the risk of hyperinflation. The need to service debt will be crucial for the future.

I would like to stress that we have irrevocably started building a market economy. We are attached to this direction. We do not want any economic experiments. We appreciate, among others, the problem of profit transfer, which is important for American investors as well as the convertibility of the Polish currency. The only reason for our caution is the threat to our balance of payments, the far-reaching uncertainty about debt."

"The Polish economy's lack of competitiveness," Deputy Minister Kuczyński added. "has its roots in the technological level. Our economy has developed for 40 years

without contact with the world and with the market. Its opening is linked to manufacturing technology. It is impossible to meet payment obligations and at the same time to restructure the economy technically.

Debt restructuring is a short-term solution. Postponement results in the burden growing."

"This is a heritage," said the Prime Minister," which we have inherited from our predecessors."

"I agree with the analysis of the gentlemen," said the guest accompanying Mr. Brady," the restructuring carried out by the Paris Club recognizes this fact and is a first step. The weakness of this decision is that it is extending debt and is not a long-term solution. This is not only a problem for the US, but also for other creditors, so it takes time to resolve it."

Prime Minister T. Mazowiecki handed over the Treasury Secretary a pro memoria and said: "Our efforts in a difficult situation are met with the patience of the society. We must, as a government, take care not to get used to this patience. Because we might encounter a surprise.

Our efforts are being watched by the countries of Eastern Europe and the USSR. Our collapse would not only have a Polish dimension.

I do not agree with the idea that special solutions cannot be found. For historically speaking this is also a special situation.

Of course, we will use your suggestions, but that problem will remain. If postponement did not involve an increase in debt, it would certainly not be quite satisfactory, but certainly a step in the right direction."