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RECENT ECONOMIC TRENDS IN THE
SOVIET UNION AND EASTERN EUROPE

Note by the Chairman of the Economic Committee

Attached for the attention of the Council is a report by the Economic Committee on recent economic trends in the Soviet Union and Eastern Europe, based partly on German, UK, US and various other sources.

2. The Council is invited to take note of this report, and in particular of its main findings and conclusions.

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RECENT ECONOMIC TRENDS IN THE SOVIET UNION AND EASTERN EUROPE

Report by the Economic Committee(1)

A. MAIN FINDINGS

1. 1976 marked the start of the Five-Year Plans (1976-1980) both in the USSR and the East European members of COMECON.

2. With the exception of Bulgaria, these Plans are characterized primarily by growth rates lower than those in the preceding Plan period (1971-1975) and averaging out at some 5% annually across-the-board. The relative moderation of these growth targets may be explained by long term growth deceleration in the region; in the case of the USSR, it also reflects the latter's need to pursue simultaneously various objectives both domestic and external, based on production factors which are expanding more slowly and costs which are increasing constantly. The 1975 and subsequent Soviet price adjustments for oil and raw materials deliveries to the six East European countries continue to affect the latter's terms of trade with the USSR. Concurrently, East Europe has been experiencing difficulties in terms of low labour productivity and of a stagnating demographic situation.

3. Another disquieting factor is the low sectoral yield from investments in a number of East European countries. Returns in the farm sector, for example, are comparatively low and subject to great fluctuations, a fact that explains the relatively modest targets reflected in the current Plans and which are inferior to those of the last Plan cycle, except for Bulgaria and Romania, which have fixed rather more optimistic goals.

4. In order to preserve the feasibility of future growth, extend basic resources, production capacities and investment yields, overall wage growth will have to be slowed down (currently targeted to increase some 14-25% throughout COMECON(2) until 1980, i.e. 2.6-4.6% per annum): consequently this trend could contribute to reducing the rate of expansion of consumer purchasing power in the medium-term despite substantial accumulated private savings for which there are unlikely to be sufficient outlets. On the other hand, it is unlikely that the defence sector will be affected by this development.

5. The prospects for a degree of balance between supply and demand in terms of basic resources are not very promising. As regards the energy sector, production of Soviet oil and natural gas will doubtless increase, but at a reduced rate and at a higher cost, at a time when energy needs are growing sharply, i.e. the Soviet Union's own domestic requirements coupled with those of

(1) For previous report see document C-M(76)75.
(2) In this paper, COMECON comprises the six East European countries and the USSR only.

Eastern Europe (without Romania) which cannot procure the quantities of oil it needs for growth at world prices and in hard currency, and which is therefore dependent on the USSR. In addition, the Soviet Union needs to export surplus oil output in order to reduce its trade deficit caused primarily by imports of high technology from the West needed for the modernization of the economy and the improvement of its efficiency, and by large grain deliveries from hard currency areas in the past four years. A comparison of Soviet and Romanian oil output until 1985 with COMECON projected requirements in this sector supported by the 1977 OECD "World Energy Outlook", suggests that the USSR together with its East European allies could become net oil importers in the 1980s.

6. The COMECON leadership is increasingly concerned over the impact of external financial restraints. At end 1976, the net COMECON convertible currency indebtedness was assessed at some $40 billion. This situation raises the question of the solvency of certain East European countries, e.g. Poland, and may explain the substantial soft currency "aid package" offered to the latter by the USSR, reportedly valued at $1.3 billion. The given financial position and the overall economic situation may well result in closer co-operation within COMECON.

7. When drawing up their new Plans, the COMECON member countries, aware of the above-mentioned difficulties, realized the need to fix more realistic growth rates which would be more effectively adapted to both domestic and exogenous constraints: this greater degree of realism implies for example an attempt to restructure the industrial sector, to utilize investments more rationally and to use energy resources more efficiently.

8. In the USSR, constraints on capital investments, the need to limit the trade deficit with the industrialized West, as well as bottlenecks in the economy will persist in 1977 and may even intensify. This will doubtless cause a dilemma for the Soviet planners throughout the current Plan period and most probably in the 1980s. This dilemma centres around the extent to which the USSR can, at the same time, satisfy its huge defence commitments, develop its resources east of the Urals, and meet its ongoing economic requirements, including the improvement of the consumer situation; also it must shoulder a substantial part of the increasing economic burden of its East European allies. In this respect, the Soviets will find themselves increasingly forced to balance the needs of the East Europeans against their own internal needs and desire to increase sales to the West.

9. Persisting economic difficulties in most East European countries (including increasing costs of necessary imports of raw materials and energy) and the erratic performance of their agricultural sector, will contine to compel them to look, in 1977 and beyond, to the Soviet Union as a source of much of their required animal feeds and basic products. However, the Soviet Union itself has only limited available resources. Moreover, its most easily marketable products are the energy and

raw materials which the East Europeans would like to receive. Nevertheless, the USSR will continue to provide its East European allies with their basic oil needs, although it is estimated that they will have to pay significantly more for it over the next few years. The 1977 cost to East European countries of quantities of Soviet oil equal to those imported in 1975 will be about 40% higher than in that year, and some 26-28% above the 1976 price. Improved terms of trade for counter deliveries to the USSR as payment for the oil plus Soviet credits will offset to some extent this substantial increase, but the gap will have to be closed, primarily via a boost in East European exports to the Soviet Union, i.e. an increasing dependency on the USSR in this vital sector is inevitable(1).

10. There are indications that the COMECON countries have been trying to reduce the growth of indebtedness and will continue to do so partly by increasing exports. There is, on the other hand, a growing need (linked to current attempts to improve efficiency and production) in COMECON for imports from the non-Communist industrialized countries mainly of semi-manufactured and capital goods incorporating a high technology input; therefore, Communist country deficits, although reduced, will continue in 1977. However, in periods of more favourable agrarian results and of economic upswing in Western Europe and the United States, these deficits could be narrowed; keeping such deficits within acceptable limits for Western lenders appears in any case as one of the best means to ensure further access to Western finance.

B. PERFORMANCE IN 1976

11. As is common in the first year of the new Plan periods within COMECON, across-the-board 1976 results throughout the region were indecisive. The best of a relatively mediocre batch of overall data came from the USSR, Bulgaria and Romania. Czechoslovakia, the GDR, Poland and Hungary reflected some of the poorest figures for some time in terms of NMP (Net Material Product)(2) growth, industrial production and agricultural output. A number of East European countries were affected by serious 1976 drought conditions throughout the East European region, but also by world inflation and by the substantially more expensive Soviet oil and raw materials prices (average 1976 prices rise for Soviet oil deliveries over 1975: 8%).

(1) In order to determine the real not nominal cost to Eastern Europe of oil deliveries, data are needed on types and amounts of counterdeliveries and the intra-COMECON prices at which they are supplied to the USSR. Such data are not available.

(2) Growth of Net Material Product which excludes most services is usually 1-2% higher than Western estimates of growth of GNP of the USSR and the East European countries.

12. On the other hand, fears that the Soviet crop might fail again in 1976 vanished after a positive weather change in June/August 1976, and partly due to this as well as to a massive seasonal manpower shift from industry to the countryside, the final Soviet harvest of 224 million tons proved a record and should provide a good supply of agricultural raw materials to Soviet industry in 1977.

13. The overall impression derived from the 1976 data so far to hand is that the difficulties in reaching Plan targets and the salient Plan problem of labour productivity throughout the region could, in the longer term, widen the gaps in economic and industrial levels within COMECON. This might further decelerate implementation of the COMECON Integration Programme which aims at narrowing these levels, especially as regards industrial growth rates and living standards, and which, by the Bucharest Charter, was to be achieved by 1980. Although a large number of co-operation and specialization deals were underway in 1976, these were primarily bilateral not multilateral, i.e. not in the spirit of the Complex Programme.

14. Nevertheless, the 1976 picture also suggests that a measure of economic growth was maintained in all the COMECON countries. The good Soviet harvest means that the USSR's partners may be able to cut back on imports of Western grain. The USSR has apparently been able to reduce her total hard currency trade deficit from $6.4 billion in 1975 to some $5 billion in 1976(1). The decline would have been even greater were it not for the large trade deficit incurred during the first three-quarters of the year with Western main grain exporters, i.e. Canada, the United States and Australia. Among the other COMECON countries, Bulgaria, Hungary and Romania improved their hard currency trade balance, while the deficit of Poland, Czechoslovakia and the GDR worsened(2). The reduction of grain imports in 1977, the rise in world prices of raw materials and energy as well as current Soviet attempts to boost sales to the West, could result in a further contraction of the Soviet deficit. On the other hand,

(1) In 1975, Soviet statistics (Vneshnyaya Torgovlya (annual)) show the deficit with the Western industrialized countries, dealing on a multilateral basis, to be $5.2 billion; the deficit with multilateral LDC's was $1.2 billion. Estimates for 1976 could total some $4 billion and $1 billion respectively.
(2) For the Eastern European countries, no full data are available on their 1976 hard currency trade deficits.

it is not at all certain that the East European countries will be very successful in their attempts further to reduce their trade deficits.

C. COUNTRY OVERVIEW

(i) USSR

15. Viewed in aggregate terms, Soviet Plan results for 1976 reflected a degree of retrenchment: NMP grew by 5% (Plan: +5.4%). Despite success in the farm sector (+4% over 1975)(1) and above-target industrial growth (+4.8% against Plan: +4.3%), the overall picture could hardly be considered favourable by the Soviet leadership. Apart from agriculture, performance last year was poor. Labour productivity in industry, construction and transport was below expectations: in the first sector it registered a +3.3% growth, i.e. below even the modest target of +3.4% (5.9% in 1975).

16. Industrial growth itself was well down over last year (1975: +7.5%) and reportedly reflected the lowest upturn since World War II. The iron and steel industry had a bad year. Output of all main products was below Plan levels. Output of mineral fertilizers and pesticides, both of vital importance for leadership hopes of increasing agricultural yields, fell short of target, as did cement and reinforced concrete - one of the reasons for the poor showing of the construction sector. This does not augur well for plans to increase the output of consumer goods over the next year or so.

17. In this context, there was the widening gap in 1976 between the growth rate of capital goods and consumer output sectors from 1.4 percentage points in 1975 to 2.5 percentage points by end 1976. Last year, moreover, was the worst for the Soviet consumer in more than a decade as regards foodstuffs. At the beginning of 1976, food shortages were reported in the countryside, but by spring these shortages had intensified and spread to the cities. The overall situation improved in the summer, but meat scarcities persisted, and general food shortages currently remain common.

(1) Western estimates, however, project a higher growth rate of around 5%.

EAST EUROPEAN COUNTRIES

(ii) GDR

18. The GDR reflected the lowest growth of NMP (+3.7% against Plan: +5.3%) since 1963, which will probably put the overall Plan goal of 27.9% growth out of reach. This was caused partially by the drought-plagued harvest: farm output was down 9.8% from mediocre 1975 levels and affected the food processing sector(1). On the more positive side, growth of industrial output was at +5.9%, just marginally below the +6.1% target. However, imperfections in planning hindered growth. Living standards continued to rise - more slowly - at normal planned rates with Government subsidies shielding the consumer, for the most part, from the increased costs of imports and from the drought effects: retail food sales rose, in fact, 3.1% for the year.

(iii) Czechoslovakia

19. Major indicators registered lower growth rates than in 1975 with inherent problems continuing, i.e. low productivity, poor use of existing equipment and outdated plant. NMP rose by 4% over 1975 (1976 Plan: 5.1%): as the Plan calls for a 27-29% NMP growth rate until 1980, last year's figure is well below the 4.9-5.2% annual range required to meet this target. In particular, farm output was some 2.7% below average 1975 levels, due to bad weather conditions; industrial production increased by 5.5%, reportedly more than planned, but well below the 7.5% reached in 1975. Additionally, the country experienced a substantial shortfall in electric power generation which, together with a higher rate of power breakdowns, impaired industrial efficiency. Last year overall saw Czechoslovakia, one of the most industrially developed states in CEMA, survive without major failure or accomplishments to register once again one of the least impressive growth rates in Eastern Europe.

(iv) Bulgaria

20. Available data show an NMP growth of 7% (Plan: 9%), industrial growth of 8% (Plan: 9.2%), an increase of 4.4% in real incomes (Plan: 4.8%) and 7% overall labour productivity (Plan: 8.8%), reflecting a decline in almost all key sectors of the economy. Total performance was improved by some manufactured products and transportation and communications activities, while

(1) The share of agriculture in the economy is not large, about 10% according to GDR data, of which an important part is livestock production, which has apparently been maintained at near-normal levels. It seems, therefore, unlikely that the entire national income underfulfilment can be attributed solely to the shortfall in agriculture.

poor performance continued in the agricultural and construction industries. Hard currency trade deficit was reportedly substantially reduced. In addition to being a bad start to the Seventh Five-Year Plan, the 1976 performance cannot help but cast doubt on recently announced production goals for 1977, though 1976 results remain positive compared with those of other members within COMECON.

(v) Poland

21. Last year brought a visible slowdown in the evolution of Poland's economy. NMP increased by 7.5% against a planned +8.3% (current Plan average: 7.2%), and compared with an average 10.1% over the last Plan cycle. Exogenous factors have had a serious impact on the country's economy, including three poor harvests in a row, requiring imports of eight million tons of grain in 1976. Other causes were the Western recession hampering Poland's exports, especially in the shipbuilding industry, and an artificial food-price structure resulting in official subsidies on foodstuffs now totalling some 12% of NMP annually. In addition, internal problems such as higher than planned investment outlays, mediocre quality manufactured goods and low labour productivity and discipline have continued to frustrate planners.

22. Poland has sustained a very high rate of real economic growth since 1970 by investing heavily in industrial modernization and expansion. Capital investment, which accounted for more than one-third of national income during this period has depended heavily upon a massive infusion of Western machinery, financed in large part through hard currency borrowing. This investment policy has created two major problems, which have made its continuation impossible. First, Poland's hard currency debt(1) has now reached a point (some $12.6 billion at year end 1976) at which the country's credit rating has deteriorated, Poland is determined not to allow this deterioration to continue, but meanwhile it might have to ask the more amenable of its Western creditors for some rescheduling of its debt service obligations. Second, the régime's commitment to investment in industry has impaired its capacity to provide desirable goods to consumers, who have become increasingly less tolerant of shortages and the poor quality of the goods that are available. Attempts to raise food prices dramatically in June 1976 led to large-scale public disaffection, including rioting. Since then, the Government has been forced not only to move very cautiously with respect to future price increases, but also to commit additional resources to the agriculture and food processing sectors in order to improve the situation and buy time for its efforts to come to terms with this thorny problem.

(1) This indebtedness has also increased because of substantial grain procurements in the West.

(vi) Hungary

23. Hungary's 1976 results were also poor overall: NMP rose only 4% (against a Plan average of 5.4%), industrial output 4.1% (Plan: 6%), owing to extreme conditions agricultural production dropped by 3% (Plan: +4%). Whilst steel, machinery output, chemicals and power generation were on target, coal, construction materials and light industrial output remained low and especially the food industry lagged substantially reflecting the serious shortage of agricultural produce. Investments remained modest and hardly increased over their 1975 level; however resources were primarily concentrated on large scale projects nearing completion. Throughout the year the living standards of the population rose only marginally reflecting the difficulties of the economy. Moreover, the Hungarian leadership has been successful in introducing price increases over a wide range of consumer items during 1976 without popular unrest.

(vii) Romania

24. Much of the Romanian 1976 Plan was successfully implemented, with overall NMP increasing some 10.5%, industrial production 11.5% and labour productivity 8.5%. Energy and balance of payments constraints, however, are starting to cramp growth prospects. Investment grew only 8%, less than half the rate planned in 1976 - presumably this was in part a result of a 25% reduction in imports from the industrialized West during 1975-76 necessitated by Romania's large hard currency debt. Rising domestic demand for energy and limited oil and gas reserves have reduced Romania's once large net oil exports to the vanishing point. Despite record agricultural results (over 17% by Romanian figures), the authorities were critical throughout the year that large areas of arable land were being underutilized and that sowing was some 30-35% lower in density than the optimum level.

D. COMECON FOREIGN TRADE

25. In 1976, the smaller COMECON nations have been seeking ways to reduce their trade deficits: in particular compensation deals and co-production ventures present an attractive solution; but these ventures have tended to generate low hard currency returns to the East European countries due to limited sales in the West. The USSR, which is also trying to whittle down its trade deficit, relied increasingly in 1976 on longer term arrangements, characterized by turnkey projects involving Western deliveries of complete plants or production lines with repayment in end-products or, possibly, in other specified Soviet products. Soviet imports in 1976 of Western equipment and technology are valued at some $5-6 billion.

26. The net aggregate indebtedness of the COMECON group is estimated to have reached at least $40 billion at the end of last year. The USSR's indebtedness was put at $14 billion, almost three times as much as in 1974 and 40% higher than in 1975. This growth reflects mainly increased balance of trade deficits with Western trade exporters. As regards Poland in particular, that country will spend some $1.5 billion on food imports alone in the period mid-1976 to mid-1977 (with Poland's convertible currency debt of about $12.6 billion at end 1976.) In that year the debt service was estimated to be equal to 50% of exports to the developed West. A number of Western lenders are consequently beginning to show concern over the country's short and medium term economic and financial situation.

E. TRENDS FOR 1977

27. In view of adverse circumstances, such as bad harvests, inflation, sharply boosted energy prices from the USSR plus Western recession, the COMECON planners were obliged to delay final Government approval of their 1976-1980 Five-Year Plans, the most part at the end of 1976. Although COMECON press reports indicate that most Plan targets will be adhered to, it is now believed, in the light of the 1976 results, that this may be difficult and where these targets have been expressed in ranges, the lower figures could well be operative until possibly as late as the beginning of 1979.

28. This trend is clearly reflected in the 1977 Plan targets issued hitherto by most of the European COMECON members. This year will be one of further consolidation in the USSR, with NMP expected to rise by 4.1%, i.e. below the annual average of 4.7% until 1980, and real incomes by 3.8% (1976: 5% and 3.7% respectively). The question is whether the Soviets will be able to offset below-Plan growth performance by the end of the current Plan cycle. The main problems centre around how to raise productivity and how to accelerate capital projects completion with a tight labour situation. Soviet planners are now perceiving that the efficient use of the labour force is closely linked with more rational utilization of equipment and plant, and with greater mobility of skilled personnel to reduce regional imbalance in production. A possible obstacle to wider utilization of more qualified manpower is the 25th February, 1977 Draft Law change, whereby soldiers and sailors with higher education have had their terms of service lengthened. This measure, aimed at coping with the growing sophistication of Soviet military equipment, will certainly slow the return to the civilian sector of higher educated personnel.

29. The need to preserve continued price stability - at least for staple items - in the USSR and achieve greater availability of consumer goods will also continue to create problems for the Soviet planners in 1977. One Western estimate of official

subsidies to maintain current price levels is some 30 billion rubles, or almost one seventh of total budgetary income. The issue is how to reduce budgetary outlays by price rises that will not cause public disaffection: the answer in 1977 could be that of introducing such rises on basic items presented in the stores under a new label, where the boost is not immediately obvious. Price increases were announced in January, 1977, but these concern primarily the luxury goods category. Despite the apparent resilience of the consumer, the Soviet authorities will in any case be wary of avoiding the same mistake as the Gierek regime did in June, 1976, with large price hikes on basic food items.

30. In Poland, consumer unrest of last year is obliging the authorities to pay more attention to consumer goods and agriculture, although the overall message is one of reduced economic growth and caution in personal consumption. The share of total investment in national income which already declined from 32% in 1975 to 28.8% last year, is to fall to 27.4% in 1977, and is to be reduced further in the following years. Investment in heavy industry is to be reduced in real terms. The heavy debt to the West will be tackled by a programme geared towards the expansion of exports and the control of non-essential imports so as not to hamper industrial production: behind this policy is the Polish Government's aim to reduce the country's trade deficit with the West by 1980. NMP is targeted to rise by 5.7%(1) and industrial output by some 6.3-7.3%, percentages which are well below the rates (10.7%) achieved last year. Agricultural output is slated to increase by 5.3% on average, but it will take some time to overcome the three bad harvests of 1974-1976, and the target will be hard to achieve without major changes in the structure of the Polish farm sector and far higher farm investment. In this respect, the regime appears to be moving towards a position more favourable to the private agricultural sector.

31. The share of the consumer goods sector in total investments will increase to around 30.5% (1976: 25.4%) and in the farm sector to 14.5% (1976: 12.7%). More consumer durables will be produced in the hope that this will absorb excessive liquidity. In this context, a salient question for 1977 is if and when the authorities will decide to reintroduce food price increases in order to reduce the burden of State subsidies and to control demand, in particular that of meat.

32. A significant aspect of the 1977 Plan is that the regime - in a major departure from past practice - apparently will encourage increased production in the private sector, especially in agriculture and in the service industries. Leadership statements have indicated that the Government expects much of the 70% growth in the supply of services to the population by 1980 to be provided by expanded private business

(1) But this figure assumed that 1976 target would be reached; as this was not the case, the 1977 percentages would have to be increased somewhat in order to achieve the originally planned growth of the economy.

activity. The Government has promised to facilitate this by lightening the burden of taxation on private business, improving the supply and distribution of materials, and making private businessmen in the service sector eligible for benefits under Poland's comprehensive social welfare system.

33. Hungary starts the year in difficult circumstances. Reflecting the need to improve on last year's poor performance NMP is planned to increase 6-6.5%, industrial output by 6% and farm production by 7-7.5%. Real incomes will rise by 3.5-4% (1976: 1.5%). In the industrial sector, investments will continue to be restricted to modernization and rationalization, and as elsewhere in the region a conscious effort will be made to improve factor productivity. Additionally, as in the rest of COMECON, industry will be more export-oriented. Convertible currency earnings will carry a top priority; however, Hungary must also pay attention to the Soviet market in view of a substantial dependence there for oil, iron ore and non-ferrous metals.

34. The GDR 1977 Plan would appear to be realistic with NMP planned to increase by 5.3% (1976: 3.7%). Production and industrial productivity will, reportedly, be backed by an active investment policy, although no data are available on the phasing of investments. Capital projects will certainly include large power generating plants as well as the rolled steel, potash fertilizer and synthetic fibre industries. It is understandable why stress is laid for this year on a substantial growth in labour productivity which is generally almost equal to growth in overall production.

35. The GDR labour force is declining and a serious shortage of skilled workers continues: savings in labour resources may well prove a problem and could involve either contracting out labour intensive processes by industrial co-operation agreements, increased imports of labour-saving equipment, or both. Certainly this is a factor which has prompted the authorities to underline the need for greater mechanization and automation: whilst the latter need could result in a recourse to Western markets for certain high technology, it is clear, as in Hungary, that economic relations with the USSR will retain first priority, especially in view of the GDR's energy and raw materials dependency on the USSR.

36. Czechoslovakia's 1977 Plan targets continue to reflect the country's conservative growth policy. Nevertheless, NMP is expected to increase by 5.4% (1976 Plan: +5.1%; actual +4%), and the farm sector, seriously affected in 1976, by 8.2%, although the planners admit it will take several years to make up livestock losses of last year. Other increases targeted for

1977, i.e. industrial output 5.3% (1976: 5.5%) and construction +6.2% (1976: +7.6%), suggest that the country's performance in these salient sectors may well be below the increases fixed in the Five-Year Plan.

37. In Czechoslovakia, several "traditional" weak spots, e.g. inefficient production, increased costs of capital investment, poor quality products, have long hampered strong economic expansion, but their impact became more evident when changes in external conditions brought with them adverse terms of trade and more qualitative demands by foreign customers. Planners realise that inefficient production can only be corrected by appropriate internal measures - e.g. adequate economic stimuli and other measures designed to improve management and to encourage greater co-operation from workers. The limiting factors originate mainly from difficulties with modernization and rationalization of production capacities, in the shortage of manpower and lack of adequate domestic supplies of raw materials.

38. Bulgaria's Plan for this year indicates that most growth targets are somewhat below those fixed in the Plan for 1976 and reflect the fact that several of these were not achieved last year. The NMP target is 8.2% and labour productivity is scheduled to rise at a similar rate (8.1%). Farm output will increase 4%, a full one percent below 1976 planned growth. Priority is to be given to the expansion of machine-building, electronics and chemicals sectors. Major investment as elsewhere in COMECON will be in modernization and more efficient utilization of existing plant.

39. Finally, the 1977 economic Plan for Romania shows continuing high growth rates: NMP +11.3%, overall industrial production +10.5%, labour productivity +9.2%. With a growth rate fixed for this year at 16.7% investments will represent a third of the national income and indicate the Romanian authorities' determination to expand the country's industrial base. Romania, the poorest country in COMECON in terms of per capita NMP, continues to invest far more rapidly than any of its partners. The bulk of investment funds are still allocated to the producer sector to the detriment of the consumer. It is unlikely, however, that Romania will be able to achieve either the 1977 or the 1980 objectives because of investment, balance of payments, and energy constraints - the latter are particularly confining. Fulfilment of the original 1976-80 plans for increased energy consumption could require a difficult near doubling of domestic coal output and a 1.2 billion dollar rise in net oil imports. In fact, coal production in 1976 was well below plan and Ceausescu late last year demanded 10 to 15 percent cutbacks in the extremely high rates of investment spending and energy consumption planned for 1976-80. The recent earthquake is adding to these strains, diverting further resources from expansion to reconstruction.