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THE CONVERTIBLE CURRENCY BALANCE OF PAYMENTS OF THE USSR AND EASTERN EUROPE AND TRENDS IN EAST-WEST ECONOMIC RELATIONS

Note by the Secretary General

Attached is a report by the Economic Committee on recent and likely future short-term trends in the convertible currency balance of payments of the USSR and Eastern Europe. The document was drawn up after a meeting of experts.

2. This report is forwarded to the Council for information.

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This document includes: 1 Annex

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THE CONVERTIBLE CURRENCY BALANCE OF PAYMENTS OF THE USSR AND EASTERN EUROPE AND TRENDS IN EAST-WEST ECONOMIC RELATIONS

Report by the Economic Committee

Summary

(i) In 1979 the USSR succeeded in making a big reduction in its convertible currency trade balance deficit, which went down to $2.1 billion from the $3.8 billion of the previous year. This positive development is attributable to the big expansion in Soviet exports (+ 46% and worth $19.2 billion), which in turn was due mainly to the rise in world oil and natural gas prices. Soviet imports (worth $21.3 billion) also increased sharply mainly because of increased procurements of grain and iron and steel products. On the other hand, after several years during which they increased continuously, imports of capital equipment fell off slightly. This trend was predictable because of the constant decrease since 1977 in the value of Soviet equipment orders financed in convertible currency and it reflects in large measure a failure to absorb some of the equipment already supplied and an accumulation of incomplete investments (paragraphs 1 to 4).

(ii) Eastern Europe's overall trade with the non-Communist countries as a whole registered a large ($5.6 billion) deficit in 1979, which is comparable with that for the previous year. Only Bulgaria managed to produce a surplus in its transactions. Poland had the biggest deficit in absolute terms ($2.0 billion), followed by the GDR and Romania, whose deficits deteriorated sharply. On the other hand, Hungary substantially narrowed its trade gap while Czechoslovakia remained in about the same position as the previous year (paragraphs 5 to 8).

(iii) In 1979 the Soviet Union greatly benefited from the rise in gold prices; its earnings from gold sales ($2.2 billion) went down only slightly by comparison with the previous year, although the volume of the gold actually sold was halved. Arms sales to Third World countries, estimated to have been worth $4 billion in 1979, were one of the main sources of Soviet convertible currency earnings. On the other hand, like the previous year, invisibles probably showed a slight deficit because of the high cost of debt servicing. All in all, 1979 brought a rapid recovery in the Soviet convertible currency payments position, with the surplus going from $1.3 billion in 1978 to $4.1 billion. In the case of Eastern Europe's balance of payments on current account, all the countries concerned except Bulgaria probably had to face big deficits because of their persistently large trade gaps and the heavier interest payments (paragraphs 9 to 14).

(iv) The size of the Soviet current account surplus in 1979 meant that the country had less recourse to Western financing; its new borrowings (mainly officially-backed Western export credits linked to commercial contracts) were even slightly lower than capital repayments on earlier loans. Bearing in mind the increase in Soviet assets in Western banks, the net convertible currency debt burden went down by approximately $1 billion in 1979 to around $10.2 billion at the end of the year. The Soviet economy has no real difficulty in supporting this debt burden; debt servicing (principal + interest) amounted to only 18% of the overall gross convertible currency earnings (paragraphs 15 to 19).

(v) The convertible currency debt burden of the East European countries taken as a whole continued to rise in 1979 reaching a total of $49.3 billion (of which Poland accounted for $20.0 billion and the GDR for $8.4 billion). The financial effects of this indebtedness vary from one People's Democracy to another. As things stand, loan commitments present no difficulties for Czechoslovakia, Romania and Hungary because the ratio between repayments of principal and interest and earnings from exports to non-Communist countries has been kept within acceptable limits (debt servicing ratio). Bulgaria, moreover, has appreciably improved its position thanks to the stabilizing of its debt burden at the 1978 level and above all to the return to a more easily supportable debt servicing ratio. The development of the GDR's financial position gives rise to more mixed feelings; although there is apparently no problem in meeting debt repayment commitments the debt servicing ratio is already high (54% in 1979) and should it continue to rise at the rapid rate of the last few years it is not impossible that some Western banks may grant credit on less favourable terms than hitherto (paragraphs 20 to 27).

(vi) Poland is in a very awkward financial position. The ratio of debt-servicing to export earnings from the non-Communist world was put at 92% in 1979. The size of the repayments falling due has obliged Warsaw to refinance an increasing part of its debts and its continued solvency depends more and more on its short-term capacity to redress the current payments situation. The prospects for such a development however remain highly doubtful, mainly because of the difficulty in restoring balance to Poland's trade without serious consequences for industrial output and the supply of consumer goods at a time when a section of the population has clearly demonstrated its refusal to accept any drop in its living standards (paragraphs 28 to 32).

(vii) The trend of the Soviet Union's trade in 1980 should lead to a further reduction in the country's convertible currency trade deficit. Imports will probably grow only modestly and could even stagnate because of the fall-off in equipment procurements, while exports, on the other hand, can be expected to expand appreciably thanks to the higher prices for mineral fuels. As in 1979, the trade deficit should be largely offset by invisible earnings and earnings from arms and gold sales, with the result that there should be a large current account surplus. Under these circumstances, the Soviet Union will have fewer financing requirements and its convertible currency debt burden should go down once more (paragraphs 33 to 36).

(viii) In spite of the efforts they are making, the outlook for any substantial reduction in the convertible currency trade gaps of the People's Democracies generally appears doubtful firstly because of the limited opportunities for any rapid and persistent expansion of exports and, secondly, because of the difficulty of restricting imports to any extent without adversely affecting domestic economic trends. A further complication is the increased cost of imported oil (paragraphs 37 and 38).

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THE CONVERTIBLE CURRENCY BALANCE OF PAYMENTS OF THE USSR AND EASTERN EUROPE AND TRENDS IN EAST-WEST ECONOMIC RELATIONS

I. SOVIET BLOC CONVERTIBLE CURRENCY PAYMENTS ON CURRENT ACCOUNT IN 1978 AND 1979

A. TRADE BALANCE

(i) USSR

1. in 1979 the USSR achieved a big reduction in its convertible currency trade balance deficit; from the 1978 figure of $3.8 billion it went down to $2.1 billion, which is the lowest figure recorded since 1974(1). This favourable development is attributable to the big increase (46%) in exports (worth $19.2 billion) which greatly outstripped the rise in imports (26% - worth $21.3 billion). The geographical pattern of trade by major categories of partners (see Table I) shows that the improved showing of Soviet foreign currency trade stems exclusively from transactions with Western Europe, which resulted in a surplus of $4.1 billion as against only $1.1 billion in 1978. At the same time the trade imbalance with the other industrialized non-Communist countries increased appreciably, while trade with the Third World remained very much as it was.

2. The convertible currency imports of the USSR ($21.3 billion) rose more rapidly than was the case in 1978 (26% compared with 16%(2)). Among the factors which explain this rise, mention should be made of grain procurements, which reached some $4 billion ($2.5 billion in 1978(3)). Moreover, the problems encountered in the iron and steel industry and in particular the inability to produce sufficient large diameter pipes for the oil and gas pipeline extension programme, have led Moscow to rely more heavily on Western imports; its purchases of iron and steel products rose from $2.5 billion - worth in 1978 to around $400 billion-worth. On the other hand, the drop recorded from the end of 1976 in the value of Soviet equipment orders(4) started to have its effect last year, since the value of

(1) The trend in the Soviet convertible currency trade balance since 1970 is as follows (in billions of $):

1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
- 0.5	- 0.3	- 1.4	- 1.8	- 1.0	- 6.4	- 6.0	- 3.3	- 3.8	- 2.1

(2) These percentages take account of the imports in 1977 and 1978 of equipment and pipes for the Orenburg gasline.

(3) The volume of Soviet grain imports amounted to some 23 million tonnes in 1978 and to around 30 million tonnes last year.

(4) Over the last few years the value of Soviet equipment orders financed out of convertible currency was as follows (in billions of $):

1976	1977	1978	1979
6.0	3.8	2.8	2.6(*)

(*) estimate
Source: C.I.A.

TABLE I: RECENT TRENDS IN SOVIET CONVERTIBLE CURRENCY TRADE (millions of $)

	1978			1979		
	Exports	Imports	Balance	Exports	Imports	Balance
- Multilateral trade with the Western industrialised countries as a whole	11,313	14,382	- 3,069	16,884	18,535	- 1,651
including: Western Europe	9,802	8,709	1,093	14,841	10,719	4,122
including: the South Sea islands and Japan	1,094	2,794	- 1,700	1,458	3,317	- 1,859
including: North America	417	2,879	- 2,462	585	4,499	- 3,914
- Multilateral trade with the developing countries	1,839	2,262	- 423	2,353	2,819	- 466
- Total multilateral trade in hard currency	13,152	16,644 (1)	- 3,492 (1)	19,237	21,354	- 2,117

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Source: Soviet statistics, exchange rate used: 1978: 1 Rouble = $1.47
1979: 1 Rouble = $1.53

(1) Excluding imports of equipment and pipes for the Orenburg gasline, which are given in footnotes to the Soviet Foreign Trade Statistics ($245 million).

imports went down slightly after having reached an all-time high of $6.0 billion in 1978. This fall-off in orders followed by a drop in equipment deliveries may partly reflect the determination of the Soviet Union to curb its commercial deficit but it is probably due above all to a failure to absorb some of the equipment already received and to an accumulation of incomplete investments.

3. After a relatively modest growth rate of 16% in 1978 Soviet convertible currency exports ($19.2 billion) picked up well in 1979 with a growth of 46%. This was largely due (approximately 70% of the rise) to the record expansion in the value of non-solid mineral fuel sales; despite a drop in the volume of these exports(7) the income earned from oil rose from $5.7 billion in 1978 to around $9 billion because of the big increase in world prices (particularly of refined product)(2). Soviet natural gas exports also registered a big rise in value from $1.1 billion in 1978 to $2 billion, mainly because of the rise in prices (the volume of deliveries apparently increased by about only 10%). Among the other categories of commodities exported by the USSR, there was a rise in sales of forest products and non-ferrous metals while sales of ferrous ores and metals declined in line with a trend which started in the early '70s.

4. Although it is hard to determine with accuracy, because of the unreliable statistics, the influence of price movements on the Soviet trade balance was certainly much more pronounced in 1979 than for the two preceding years. United Nations statistics on the trend in the unit value (in dollars) of Soviet transactions with the industrialized Western countries tend to show that in 1977 and 1978 the Soviet Union's terms of trade (expressed in

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(1) At the meeting of experts on 19th and 20th May 1980 it was stated that convertible currency oil sales had dropped from 1.2 million barrels a day (60 million tonnes) in 1978 to 0.95 million barrels a day (47.5 million tonnes). According to data from Western sources compiled by the International Energy Agency, it would appear that the volume of sales (measured in product equivalents) to the OECD grouping with the exception of Turkey dropped to a lesser degree, from 57.8 million tonnes in 1978 to 55.4 million tonnes (see Annex to this document).

(2) For information, the development in 1979 of world prices was as follows:

	1978 average	1979 average
(a) Crude oil (light Arabian FOB Gulf)	$ 12.70/barrel	$ 18.65/barrel
(b) Petroleum products (diesel fuel, FOB barges Rotterdam)	$ 128.6/tonne	$ 310.9/tonne

dollars) did not change(1). On the other hand, in 1979 the Soviet Union registered what was probably a big improvement in its terms of trade with the industrialized West inasmuch as the prices of energy products and, to a lesser extent, of certain raw materials (wood and non-ferrous metals especially) rose substantially while the increase in the unit value of most of the goods imported from the West was probably much slighter(2).

(ii) Eastern Europe

5. This area's trade with the non-Communist countries(3) in 1979 is characterized by a persistently large deficit which nevertheless rose slightly from the 1978 figure of $-5.55 billion to $-5.62 billion (see Table II, page 9). However, the situation varies from one country to another.

6. Of the six countries in question, only Bulgaria succeeded in achieving a substantial trade surplus of $658 million under the combined effects of an increase in its traditional surplus with the developing countries and the virtual disappearance of its deficit with the industrialized market economy countries(4). On the other hand, the estimates regarding the trade of the GDR and Romania reveal a big deterioration in the trade balance of both countries (See Table II) for the second year running. It is possible that in 1979 this negative tendency was (to some extent) aggravated by the increase in imports of oil and raw materials from the Third World. Czechoslovakia's exports and imports showed an identical and relatively modest expansion in the form of a slight increase in the deficit (approximately $500 million) of the country's trade with the non-Communist world.

(1) The unit value statistics in $US established by the Economic Commission for Europe for trade between the USSR and the Western industrialized countries show the following trend (annual percentage increase):

	1975	1976	1977	1978
Soviet exports	10.9	3.7	9.7	10.2
Soviet imports	18.4	-9.2	9.8	9.9

Source: UN, advance copy of Economic Bulletin for Europe, No. 31, Table 3-1.

(2) According to the GATT estimates, the unit value in $ of the overall exports of manufactures from the developed market economy countries increased by 10% in 1979. In the case of grain, the export price indices established by the UN show a more rapid growth - 25% for wheat and 21% for maize.

(3) These figures include not only Eastern Europe's convertible currency trade but also transactions settled through bilateral clearing agreements.

(4) The Bulgarian statistics reveal a surplus with the Third World of $573 million in 1978 and $710 million in 1979. The deficit with the industrialized Western countries dropped from $423 million in 1978 to $20 million in 1979.

TABLE II: EASTERN EUROPE: RECENT TRENDS IN TRADE WITH NON-COMMUNIST COUNTRIES AS A WHOLE (MILLIONS OF $)

	1978	1979
Bulgaria		
- Exports	1,583	2,275
- Imports	1,432	1,618
- Balance	151	658
Czechoslovakia		
- Exports	3,101	3,500
- Imports	3,529	4,000
- Balance	- 428	- 500
GDR(*)		
- Exports	3,694	4,387
- Imports	4,788	6,043
- Balance	- 1,094	- 1,656
Hungary		
- Exports	2,475	3,360
- Imports	3,822	4,042
- Balance	- 1,347	- 682
Poland		
- Exports	5,488	6,037
- Imports	7,378	8,046
- Balance	- 1,890	- 2,008
Rumania(*)		
- Exports	4,177	5,458
- Imports	5,120	6,889
- Balance	- 943	- 1,431
TOTAL FOR EASTERN EUROPE		
- Exports	20,518	25,017
- Imports	26,069	30,638
- Balance	- 5,551	- 5,621

(1) Estimates
Sources: Statistics provided by the United Kingdom Delegation (estimates).

7. Hungary succeeded in halving its trade gap (which reached $682 million) thanks to a big rise (36%) in exports coupled with a modest (6%) rise in imports, which is in marked contrast with the figure of 24% for the preceding year. This fall-off in the growth in purchases reflects a change in the policy of over-stocking practised by the Hungarian enterprises in 1978.

8. Efforts by Poland to reduce its convertible currency trade deficit, particularly by being much more selective over imports, resulted in a further reduction in the deficit, which stood at $1.7 billion compared with $1.9 billion the year before, (see Table III, page 11). Nevertheless the trade gap is still much larger than the initial official forecast (which gave a figure of $0.7 billion) and is a cause for concern inasmuch as the restrictions applied to imports of capital equipment and semi-finished goods from the West can hardly be made tighter without having serious effects on domestic output.

B. GOLD SALES

9. Gold sales have provided the Soviet Union with a regular and far from negligible source of convertible currency over the last few years. In 1979, sales (of between 210 and 220 tonnes) were approximately halved in volume in relation to the record level of 400 tonnes for the preceding year. At the same time, their value dropped much less (from $2.5 billion in 1978 to around $2.2 billion) because of the rise in the price of this precious metal. Soviet gold export policy is difficult to analyse if only because there are no features pointing to the existence of an overall strategy in this field. For Moscow, gold would seem to have a purely commercial rôle (to obtain maximum income over the short term) and sales of the metal are used as a residual financing instrument in the light of the availability and cost of the other sources (credits, for instance). At the same time, a minimum for the level of reserves has probably been set(1).

(1) According to CIA estimates, Soviet gold reserves were between 1,570 and 1,580 tonnes in 1979.

TABLE III: RECENT TRENDS IN POLISH MULTILATERAL CONVERTIBLE CURRENCY TRADE (in millions of $)

	1978			1979		
	Exports	Imports	Balance	Exports	Imports	Balance
- Multilateral trade with Western Europe	3,458	4,934	- 1,476	3,800	4,974	- 1,174
- Multilateral trade with the industrialised Western countries as a whole	4,063	6,279	- 2,216	4,377	6,297	- 1,920
- Multilateral trade with the developing countries	444	168	276	540	356	184
- Total multilateral convertible currency trade.	4,507	6,447	- 1,940	4,917	6,653	- 1,736

Source: Official Polish statistics provided by the Canadian Delegation.
Exchange rate used: 1978: 1 Zloty = $0.316
1979: 1 Zloty = $0.324

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C. ARMS SALES

10. Sales of arms to Third World countries continue to be a large and growing source of convertible currency for the Soviet Union. According to American estimates, the value of such sales in convertible currency amounted to some $4 billion in 1979. This is well above the previously estimated 1978 sales figure(1) firstly because of an increase in the volume delivered but also because of an upward revision in the estimated prices charged by Moscow. In the case of Eastern Europe the overall value of arms sales to the Third World was considered to be in the region of $500 million but no information is available on the value of transactions financed in convertible currency.

D. INVISIBLE TRANSACTIONS

(i) USSR

11. The preliminary information available to the International Staff would seem to show that in 1979 the Soviet Union recorded a small surplus for services (of between $50 and $100 million, which is about the same as for the previous year(2)). Where the different invisible sectors are concerned, net earnings from tourism seem to have risen sharply to between $350 and $400 million ($200 million in 1978). On the other hand, net receipts from transportation, which stagnated in 1978, dropped by some $100 million to around $900 million. This fall-off is attributable to a drop in the volume of oil delivered together with an increase in expenditure by the Soviet Union on the transport of its grain imports. Lastly, the investment income deficit increased slightly (from $ - 1.1 billion in 1978 to $ - 1.2 billion) because of the increase in payments of interest on the debt ($1.9 billion compared with $1.8 billion in 1978) while interest earned by the Soviet Union on its assets in Western banks remained about the same ($0.7 billion) from one year to the next(3).

12. Soviet net official transfers traditionally show a deficit corresponding to the hard currency contribution to the United Nations budget. The latter, which was estimated at $145 million in 1978, was probably slightly higher in 1979.

(1) The estimates in C-M(79)60 (Table III) put Soviet arms sales in convertible currency for 1978 at $1.7 billion.
(2) In 1978 the surplus for services was $86 million (see C-M(79)60).
(3) The figures for 1979 shown in this paragraph were supplied at the meeting of experts on 19th and 20th May 1980.

(ii) Eastern Europe

13. No overall estimate can be made of recent trends in East European hard currency invisible transactions for lack of adequate detailed information. Only Poland and Hungary supplied some such data to Western banks in connection with negotiations for syndicated loans(1). It emerges from these figures (see Tables IV and V below) that in 1979 Poland recorded a big 36% increase in its balance of services deficit mainly because of the increased payments of interests on debt. The deficit was only partially offset by the surplus of net transfers and the negative invisible transactions balance stood at $-1.1 billion (see Table IV)(2). Hungary also had to contend with an increase in the deficit for the services sector because of heavier interest payments. The same country also had a substantial deficit in the transport sector but, on the other hand, doubled its net tourist earnings; the invisible transactions deficit amounted to $-388 million (see Table V)(3). It is highly probable that in most of the other East European countries there were increased balance of services deficits because of the heavier interest payments(4).

(1) Romania does, however, supply some information to the IMF.
(2) The data provided by Poland seems to apply to transactions with all the non-Communist countries and therefore includes a fraction of settlements not made in convertible currency.
(3) There are ambiguities in the statistics submitted by the Hungarian National Bank in particular where investment income is concerned. The gross expenditure given under this heading ($463 million in 1979) appears low in comparison to the interest payments probably made (the estimates in document AC/127-D/637 give a figure of $840 million) for a gross debt estimated at $7.5 billion at end-1978. Possible explanations may be the exclusion of interest on the short-term debt and the exchange rates used.
(4) Payment of interest on the debt has been estimated as follows (in millions of $):

	Czechoslovakia	GDR	Romania	Bulgaria
1978	281	725	351	373
1979	385	1,075	601	470

Source: AC/127-D/637

E. BALANCE OF PAYMENTS ON CURRENT ACCOUNT

14. The foregoing summary of various chapters shows the very rapid recovery in the Soviet convertible currency current payments position in 1979. The surplus apparently reached $4.1 billion compared with the figure of $1.3 billion for the preceding year(1). In Eastern Europe the position of Poland has deteriorated with the deficit going from $2.4 billion in 1978 to $2.8 billion(2). It is probable that the big rise in the trade deficits of the GDR and Romania have increased the disequilibrium of their balance of payments on current account. At the same time, it is likely that Hungary's deficit has been reduced and that Bulgaria may even have a surplus.

TABLE IV: RECENT TRENDS IN POLISH INVISIBLE TRANSACTIONS WITH THE NON-COMMUNIST COUNTRIES (in millions of $)

	1977	1978	1979
Net earnings from tourism	57	77	91
Net earnings from transportation	- 15	- 71	- 97
Net earnings by other services	- 66	- 106	- 92
Net interest	- 866	- 1,083	- 1,505
Balance of services	- 890	- 1,183	- 1,603
Net transfers	589	605	485
	- 301	- 578	- 1,118

Source: Handlowy Bank, Warsaw.

(1) These data come from a CIA study entitled "The Soviet Economy in 1978-79 and prospects for 1980" circulated in June 1980; the figure shown for 1978 of $1.3 billion represents an upward revision of the provisional estimate given in the Economic Committee's previous report (C-M(79)60).

(2) Source: Handlowy Bank: these figures appear to relate to current payments with the non-Communist countries and include certain operations which were not transacted in convertible currency.

TABLE V: RECENT TRENDS IN HUNGARIAN CONVERTIBLE CURRENCY INVISIBLE TRANSACTIONS (in millions of $)

	1977	1978	1979
Net earnings from tourism	40	36	72
Net earnings from transportation	- 149	- 192	- 187
Net investment income	- 165	- 268	- 366
Net earnings by other services	50	44	53
Balance of services	- 224	- 380	- 428
Net transfers	22	27	40
	- 202	- 353	- 388

Source: Hungarian National Bank (Magyar Nemzeti Bank).

II. CAPITAL MOVEMENTS AND CONVERTIBLE CURRENCY DEBT OF THE USSR AND THE EAST EUROPEAN COUNTRIES IN 1978 AND 1979

(i) USSR

15. Soviet capital movements are obviously related to the country's financing requirements. Thus, since the convincing recovery in the balance of payments on current account which started in 1977 there has been less recourse to Western financial sources. Bearing in mind the increase in Soviet assets in Western banks, the global value of all net capital inflows to the Soviet economy which amounted to $1.1 billion in 1977 was transformed into a net outflow of $13 million in 1978 and, according to preliminary estimates, approximately $1.0 billion in 1979. Expressed in net terms, the Soviet Union's convertible currency debt reached an all-time high of $11.2 billion in 1977, remained practically the same in 1978 and then dropped sharply in 1979 (by $1.0 billion) to reach an end-of-year figure of $10.2 billion (see Table VI, page 17).

16. In 1979 the Soviet Union pursued even more strongly its policy of preferring officially-backed credits offered by official Western establishments; drawings on this type of loan reached a total of $2.5 billion, or the same as the year before, whereas gross inflows of commercial credits went down from $1.4 billion in 1978 to $0.3 billion. As a result, the share of officially-backed credits in the net Soviet debt has gradually increased from 52% in 1977 to 62% in 1978 and to 75% in 1979; this is the highest percentage for any Soviet bloc country(1).

(1) After the Soviet Union, Poland has the highest percentage (26% in 1979).

17. The commercial debt of the Soviet Union ($9.5 billion at end 1979 - see Table VI) is made up primarily ($7.2 billion) of liabilities to Western banks. This bank debt (which went down by $1 billion between 1978 and 1979) comprises a fairly wide variety of credits including medium-term syndicated Euro-credits. In this connection, it should be noted that after having been absent from the Euro-market in 1977 (and even having turned down a loan at a rate of 1 point over the LIBOR), the Russians again borrowed in 1978 and 1979 to the tune of $400 and $320 million respectively. These credits have been obtained on favourable terms(1), which reveals continued liquidity in the market but also Western bankers' confidence in the solvency of the Soviet Union.

18. Excluding commitments to United States, West European or Japanese banks, the remainder of the Soviet commercial debt (i.e. some $2.3 billion at end-1979) is made up in large measure of supplier credits not guaranteed by an official Western institute (and not included in the assets of the banks reporting to the BIS). Many of the bills of exchange are probably rediscounted without recourse by the Western exporters on the à forfait market; however, in 1977 the Russians took steps to limit the transferability of their promissory notes so as to reduce the circulation of these bills on the secondary markets and the adverse publicity on their debt-standing to which this gave rise. Estimates of the value of the new promissory notes placed in the West by the Soviet Union for 1979 give a figure of $400 million, which is the same as that for the preceding year, but lower than the $500 million per year between 1974 and 1977(2).

19. The hard currency debt burden puts no real strain on the Soviet economy. In 1979, the total amount for repayments of principal and interest (approximately $4.75 billion) amounted to only 18% of the overall gross current earnings. Moreover, the percentage has dropped from the 21% recorded in 1978 because the cost of debt-servicing has expanded more slowly than receipts on current accounts(3). Further proof of the way in which the Soviet Union controls its indebtedness is provided by the early repayment of part of the syndicated Euro-credits obtained in 1975 and 1976.

(1) In 1978 the USSR obtained a credit of $400 million over a period of seven years at 0.75% of a point over the LIBOR. In 1979 it took out two loans ($250 million over ten years) at a rate of 0.625 of a point over the LIBOR. The terms of the second loan ($70 million for the Sakhalin Oil Development Company granted by a Japanese banking syndicate) have not been revealed.

(2) Data applying to promissory notes which are neither backed by an official Western body nor held by the banks reporting to the BIS.

(3) As a function of merchandise exports only, the debt-servicing ratio has dropped from 31% in 1978 to 24% in 1979.

TABLE VI: USSR: SUMMARY OF CONVERTIBLE CURRENCY CAPITAL MOVEMENTS AND INDEBTEDNESS (in millions of $)

	1975	1976	1977	1978	1979(1)
(i) CAPITAL FLOW					
1. Drawings on officially-backed Western export credits (principal only).	1,972	2,611	1,991	2,462	2,500
2. Repayment of principal - officially-backed Western export credits.	730	1,057	1,306	1,421	1,711
3. Net drawings on officially-backed Western export credits (3 = 1 - 2)	1,242	1,554	685	1,041	789
4. Receipts, net of re-payment, of all credits not officially backed.	4,160	2,720	191	458	- 816
5. Net variation in Soviet holdings in Western banks.	- 395	+1,611	- 240	+1,512	+ 990
6. TOTAL NET CAPITAL RECEIPTS (6 = 3 + 4 - 5)	5,797	2,663	1,116	- 13	-1,017
(ii) SOVIET DEBT (END-OF-YEAR POSITION					
1. Commercial debt	6,947	9,667	9,858	10,316	9,500
2. Outstanding debt for officially-backed Western credits.	3,631	5,185	5,870	6,911	7,700
3. Soviet holdings in Western banks.	3,127	4,738	4,498	6,010	7,000
4. TOTAL NET SOVIET DEBT (4 = 1 + 2 - 3)	7,451	10,114	11,230	11,217	10,200

(1) Provisional estimates
Source: Data compiled from AC/127-D/637

(ii) Eastern Europe

20. With persistent current payments deficits and an increase in the repayment commitments arising from earlier loans, most of the People's Democracies continued in 1979 to rely extensively on the financial facilities offered by the Western countries or available on the private capital markets. Nevertheless, the total value of net inflows of capital to the area went down by 25% from the 1978 figure of $9.4 billion to $7.0 billion (see Table VII, page 19). Expressed in net terms, Eastern Europe's convertible currency indebtedness continued to mount (to an end-of-year total of $49.3 billion - see Table VIII, page 20), but at a slower rate than in 1978 (16% instead of 29%). Among the countries concerned, Poland(1) has the heaviest debts ($20.0 billion at end-1979), followed by the GDR with $8.4 billion, Hungary with $7.3 billion and Romania with $6.7 billion. Bulgaria's debt of $3.7 billion and Czechoslovakia's of $3.1 billion are, on the other hand, appreciably lower in absolute terms(2).

21. The biggest element in the East European debt is the commercial debt. The share of this element (once the assets deposited in Western banks are deducted) in the total net debt of the different countries at end-1979 ranged from 91% for Hungary (which shows a preference for bank credit) to 75% and 72% respectively for Poland and Romania(3). In the case of bank loans, there was a slight increase in publicized medium-term syndicated Euro-credits ($2,925 million, compared with $2,785 million in 1978 - see Table IX, page 22). Poland and the GDR were the biggest borrowers on the market, with $807 million and $636 million respectively. Supplier credits without official backing again played a significant rôle in financing East European imports (with the notable exception of Hungary, which does not use this type of facility). The value of promissory notes issued in 1979 which were not discounted with banks reporting to the BIS was estimated at $735 million, compared with $675 million in 1978.

(1) The information supplied by the Handlowy Bank to certain Western banks revealed a gross hard currency debt burden of $19.0 billion at end-1979 but this figure excludes short-term credits.
(2) Among the factors which influenced the East European debt in 1979 mention should be made of the parity fluctuations of the various Western currencies in relation to the United States dollar. Thus, on the basis of the Polish gross medium and long-term hard currency debt as given by the Handlowy Bank, a very rough calculation shows that, at end-1979 Poland's hard currency debt expressed in constant 1978 US dollars was some $0.8 billion lower than the figure calculated in current dollars.
(3) IMF and World Bank loans are not included in this percentage.

TABLE VII: EASTERN EUROPE, SUMMARY OF CONVERTIBLE CURRENCY CAPITAL MOVEMENTS (in millions of $)

	1975	1976	1977	1978	1979
1. Drawings on officially-backed Western export credits (principal only)					
- Bulgaria	66	195	107	101	105
- Czechoslovakia	97	183	158	226	217
- GDR	185	304	325	311	340
- Hungary	9	34	30	63	64
- Poland	572	1,187	1,821	1,807	2,000
- Romania	229	171	348	347	402
2. Net drawings on officially-backed Western export credits and other official credits(1)					
- Bulgaria	4	133	- 7	15	- 8
- Czechoslovakia	- 21	81	39	82	62
- GDR	62	110	192	160	175
- Hungary	- 22	- 3	8	34	27
- Poland	410	857	1,250	840	686
- Romania	- 91	- 47	56	85	105
3. Receipts, net of all repayments, of all credits not officially-backed					
- Bulgaria	933	425	516	541	245
- Czechoslovakia	105	649	715	508	752
- GDR	1,990	558	1,097	1,589	1,071
- Hungary	1,028	917	1,598	1,784	520
- Poland	2,961	2,612	1,234	3,037	2,570
- Romania(2)	322	26	646	1,531	1,624
4. Net variation in holdings in Western banks					
- Bulgaria	40	59	96	15	217
- Czechoslovakia	- 103	123	67	198	257
- GDR	1,096	- 831	177	360	354
- Hungary	348	257	- 33	- 223	- 241
- Poland	110	170	- 368	437	228
- Romania	265	- 100	- 158	12	21
5. TOTAL NET CAPITAL RECEIPTS (5 = 2 + 3 - 4)					
- Bulgaria	897	499	413	541	20
- Czechoslovakia	187	607	687	392	557
- GDR	956	1,499	1,112	1,389	892
- Hungary	658	657	1,639	2,041	788
- Poland	3,261	3,299	2,852	3,440	3,028
- Romania	- 34	79	860	1,604	1,708

(1) Does not correspond strictly to heading 1 minus repayments of principal after taking account of net receipts of official credits other than export credits backed (or, in certain cases, granted directly) by official Western institutes (for example, government-to-government loans).

(2) Including net loans from the IMF and the World Bank (1975 = 78; 1976 = 209; 1977 = 181; 1978 = 228; 1979 = 133).

Source: data compiled from AC/127-D/637.

TABLE VIII: EASTERN EUROPE: CONVERTIBLE CURRENCY INDEBTEDNESS

(millions of $: end-of-year situation)

	1975	1976	1977	1978	1979
1. Commercial debt					
- Bulgaria	2,453	2,878	3,394	3,935	4,180
- Czechoslovakia	926	1,575	2,290	2,798	3,550
- GDR	4,485	5,043	6,140	7,729	8,800
- Hungary	3,081	3,998	5,596	7,380	7,900
- Poland	6,547	9,159	10,393	13,430	16,000
- Romania(1)	2,218	2,244	2,890	4,421	6,045
2. Outstanding debt for officially-backed export credits and other official Western credits					
- Bulgaria	187	320	313	328	320
- Czechoslovakia	206	287	326	408	470
- GDR	703	813	1,005	1,165	1,340
- Hungary	54	51	59	93	120
- Poland	1,467	2,324	3,574	4,414	5,100
- Romania	706	659	7.5	800	905
3. Assets in Western banks					
- Bulgaria	383	442	538	553	770
- Czechoslovakia	305	428	495	693	950
- GDR	1,640	809	986	1,346	1,700
- Hungary	940	1,197	1,164	941	700
- Poland	633	803	435	872	1,100
- Romania	475	375	217	229	250
4. TOTAL NET DEBT (4 = 1 + 2 - 3)					
- Bulgaria	2,257	2,756	3,169	3,710	3,730
- Czechoslovakia	827	1,434	2,121	2,513	3,070
- GDR	3,548	5,047	6,159	7,548	8,440
- Hungary	2,195	2,852	4,491	6,532	7,320
- Poland	7,381	10,680	13,532	16,972	20,000
- Romania	2,449	2,528	3,388	4,992	6,700

(1) Including debt to the IMF and the World Bank (1975 = 194; 1976 = 403; 1977 = 584; 1978 = 812; 1979 = 945).
Source: AC/127-D/637

This rise from one year to the next reflects the increase in placings made by Romania and the GDR(1). On the other hand, virtually no use was made by the East European countries of the facilities offered by the international bond market(2).

22. Romania has continued to make use of the financial facilities granted by the IMF and the World Bank. Its drawings net of repayments on the credits granted by these two bodies came to $133 million in 1979 (compared with $228 million the year before).

23. The drawings by the East European countries on Western officially-backed export credits reached a total of $3.1 billion in 1979, which is a slight increase over the level recorded the previous year ($2.9 billion - see Table VII). Among the People's Democracies Poland is far and away the main recipient of this type of credit and its own drawings reached around $2.0 billion; this is equivalent to about 29% of all the gross convertible currency capital receipts ($6.86 billion) which the country received during the same period(3). Furthermore, it is interesting to note that, again in 1979, officially-backed export credits used by Poland enabled it to cover the financing of almost a third (32%) of its total convertible currency merchandise imports from the industrialized market economy countries; this is a noteworthy percentage and certainly the highest for any of the East European countries(4). Among the other East European countries, Romania and the GDR, in that order, are the main users of officially-backed export credits.

(1) Estimated value of promissory notes placed in Eastern Europe without the backing of an official Western institute and not held by banks reporting to the BIS (in millions of $):

	1975	1976	1977	1978	1979
Bulgaria	125	75	50	50	50
Czechoslovakia	200	175	200	175	175
GDR	175	175	175	150	170
Poland	475	350	325	225	225
Romania	150	100	75	75	115
Hungary	-	-	-	-	-

Source: AC/127-D/637

(2) As in 1978, only Poland used the bond market, with two public placings totalling $48 million.

(3) In the case of the other East European countries, and for the same year (1979), the percentage of drawings on officially-backed export credits to the overall gross capital receipts was much lower:

Czechoslovakia = 18%
Romania = 17%
Bulgaria = 16%
GDR = 13%
Hungary = 7%

(4) By way of comparison, the figure for the USSR was 13%.

TABLE IX: PUBLICISED SYNDICATED MEDIUM-TERM(1) EURO-CREDITS EXTENDED TO THE SOVIET BLOC (in millions of $)

	Jan-Jun 1978	July-Dec 1978	Total 1978	Jan-Jun 1979	Jul-Dec 1979	Total 1979	Jan-Jun 1980
USSR	400.0	-	400.0	320.0	-	320.0	-
Poland	304.0	70.0	374.0	642.0	164.7	806.7	5.5
GDR	562.0	220.0	782.0	436.0	200.0	636.0	164.0
Bulgaria	149.0	90.0	239.0	120.0	82.2	202.2	-
Czechoslovakia	150.0	-	150.0	200.0	250.0	450.0	-
Hungary	400.0	115.0	515.0	300.0	250.0	550.0	250.0
Romania	225.3	500.0	725.3	180.0	100.0	280.0	457.6
INTERNATIONAL INVESTMENT BANK	-	500.0	500.0	175.0	700.0	875.0	-

(1) Credit commitments of over one year

Sources: 1978 and 1979: World Bank: "Borrowing in International Capital Markets"
January-June 1980: OECD: Financial Statistics

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24. The consequences for the East European economies of their convertible currency debt varies greatly from one country to the next. An examination of the financial strains resulting from contractual commitments arising from credits granted earlier (see Table X) reveals that in 1979 Czechoslovakia and Romania were in the relatively most favourable position; for both these countries repayments on principal and interest amounted to only 22% of the value of merchandise exports to the non-Communist world. As things stand, such a proportion poses no problems. What is more, Czechoslovakia has, in absolute terms, the lowest debt of all these countries. Romania's position - despite much increased borrowing since 1977 - remains better than in the early '70s (when the debt servicing ratio was in the region of 30%) which shows that Bucharest is able to exercise control over the development of its external payments. Moreover, the credit category pattern of the debt is comparatively more advantageous than that of the other East European countries inasmuch as the share of preferential credits (IMF and World Bank loans or officially-guaranteed credits) in the total net debt is the highest for the area (28% in 1979, see paragraph 21 below).

25. Since 1978 Hungary has had to contend with an appreciable rise in its debt servicing ratio (Table X) partly as a result of increased borrowing but also because of the higher cost of the credit granted on the Euro-markets, which are virtually the only source of financing it uses(1). However, the maintenance within acceptable limits (37% in 1979) of the ratio between the value of the reimbursements (principal + interest) and that of exports to the non-Communist area, together with the decrease in 1979 in the country's financing requirements suggests that Hungary does not currently meet any problems stemming from its indebtedness whilst still enjoying the confidence of the Western banks.

26. Bulgaria is the only East European country which in 1979 succeeded in reducing the burden of its debt, with the debt servicing ratio (principal + interest) dropping sharply from the 1978 figure of 46% to 38%. This positive development is also seen in the very low ($20 million) total for new net capital receipts in 1979 and the resulting stabilization of the debt at the 1978 level. The fact that Bulgaria has regained control of its external payments and that its net debt remains fairly low in absolute terms has probably strengthened the confidence of Western bankers.

(1) By way of example, average interest rates on six-month deposits in Euro-dollars in London have fluctuated as follows (percentage):

1976	1977	1978				1979			
		I	II	III	IV	I	II	III	IV
6.1	6.4	7.7	8.5	9.3	11.1	10.7	10.7	12.0	14.0

Source: Morgan Guaranty Trust Company of New York.

TABLE X: REPAYMENTS (PRINCIPAL + INTEREST) OF THE CONVERTIBLE CURRENCY DEBT IN RELATION TO MERCHANDISE EXPORTS TO THE NON-COMMUNIST COUNTRIES

(%)

	1975	1976	1977	1978	1979
Bulgaria	33	39	45	46	38
Czechoslovakia	14	15	17	20	22
GDR	25	29	38	49	54
Hungary	19	21	25	36	37
Poland	30	42	59	79	92
Romania	23	18	19	20	22

Source: AC/127-D/637

27. On the other hand, the development of the GDR financial position calls for a rather more reserved judgment. Over the last few years this country has been confronted with a rapid rise in its debt servicing ratio (principal + interest) which rose to 54% in 1979 because of the high degree of borrowing in the West since 1976. This strong reliance on Western credits would not seem to be part of a long-term strategy (as it was to some extent in Poland) but more simply an ad hoc solution to a series of large, and probably unexpected, trading deficits. As matters stand, the debt burden apparently causes no problem to the GDR, especially when it is remembered that the amount of reimbursements, expressed not in relation to merchandise exports but to current account receipts, is probably lower than the percentage given above thanks, inter alia, to large invisible receipts from the Federal Republic of Germany. However, if the present trend towards an increased debt servicing burden continues, it is not impossible that certain Western banks may have second thoughts and grant credit on less favourable terms than in the past(1).

28. Poland's financial position is without question the most vulnerable of all. To finance its successive current account deficits and meet its repayment commitments under previous loans, Warsaw has relied heavily on Western credits. For the years 1978 and 1979 alone, gross capital receipts (new drawings) amounted to \$6.7 billion and \$6.9 billion respectively. This has rapidly increased the debt servicing burden: the value of payments of principal and interest expressed in relation to merchandise export earnings from non-Communist countries, went up from 59% in 1977 to 79% in 1978 and 92% in 1979(2). The debt

(1) A classification made by "Euromoney" (February 1980) based on various parameters (amount of loan, terms, maturity) for publicised syndicated Euro-credit loans shows, in the light of the terms granted, the degree of solvency of the different countries (75 altogether). The following table shows the "league" position of the Soviet bloc countries:

	Spread (weighted average)	Average duration (number of years)	Position in the "Euromoney" league
USSR	0.555	7,9	9/75
Czechoslavakia	0,590	10,0	15/75
Hungary	0.606	9,0	16/75
GDR	0.646	6,5	20/75
Bulgaria	0.692	8,0	25/75
Romania	0.761	10,0	36/75
Poland	1,046	3,1	56/75

(2) Expressed in terms of overall gross receipts on current account, the debt servicing ratio is slightly lower, i.e. 70% in 1979.

servicing ratio has reached such proportions that Warsaw has to refinance an increasing part of its debts. An illustration of this situation is provided by the fact that the proportion between actual resource transfers(1) and gross capital receipts (drawings) was only 15% in 1979 (compared with 35% in 1977 and 1978 and 60% in 1976).

29. The maintenance of Poland's solvency depends more and more exclusively on the country's capacity to redress substantially and in the near future its convertible currency current payments position. This implies, inter alia, the need for a return to a large trade surplus because of the likely persistence of a negative balance for invisible transactions resulting from payments of interest on the debt. The prospects of such a development however remain uncertain. Despite the efforts made by the authorities, the progress achieved between 1977 and 1979 towards a reduction of the trade deficit was not sufficient to offset even the worsening of the balance of services deficit. If the government chooses to become even more selective over imports from the West, there is a danger of further restricting industrial production and of exacerbating existing tensions between supply and demand for consumer goods at a time when efforts to stabilize certain of these commodity markets by means of price rises have caused serious social unrest. Moreover, the chance of a big increase in exports of manufactures over a sufficiently long period remains limited and Poland cannot very easily divert more raw materials from the domestic market without adversely affecting industrial output. Lastly, even if it is not possible to assess their effects at present, the possible consequences of the strikes in the summer of 1980 on the level of exports have to be taken into consideration. "Be this as it may, the slackened rate of output in certain sectors resulting from the work stoppages and the concessions made by the government as a result of them, together with the promises to improve the supply of consumer goods by increasing imports and reducing exports of these products, will only worsen the convertible currency trade deficit which, according to certain estimates, could reach $1.7 billion in 1980, i.e. about the same level as the previous year".

(1) Actual resource transfers means the amount of gross capital receipts (drawings) minus the debt servicing figures (principal + interest).

30. So far, and although there have been certain signs of hesitation(1), Western bankers still seem to be at least giving Poland the benefit of the doubt. There are probably three main reasons for this: (i) the desire not to damage still further the country's external payments situation (which would necessarily compromise its solvency); (ii) their continued confidence in the long-term potential of the Polish economy (particularly its capacity to produce certain types of raw materials and, above all, energy products); and (iii) the example of Western governments, which continue to provide Poland with extensive financial support mainly through officially-backed credits.

31. Poland has apparently succeeded in obtaining the capital it requires for 1980 which will probably be in the region of $9 billion. If this proves the case, it will nevertheless highlight the Poles' dwindling room for manoeuvre since Warsaw seems to have run out of further sources of credit, as the following developments illustrate: the National Bank has apparently intervened for the first time on the six-months Euro-dollar market, the conditions for the transfer of promissory notes subject to forfeiting have been relaxed and certain officially-backed export credits have been refinanced under special terms(2). Poland also has a large amount ($4.8 billion at end-1978) of officially-backed credit commitments which have not been drawn; the use of these credits is however linked to the performance of the commercial contracts for which they were granted and they cannot really be used for debt-servicing(3).

32. Nevertheless, if Poland is unable to make genuine progress towards wiping out its hard currency balance of payments current account deficit in 1980-81 it will probably face even greater difficulties in 1981 than this year because, inter alia, of the increased value of maturing debts. If this should lead, as it probably would, to greater reluctance on the part of Western financiers, Poland might even find itself obliged to resort to a multilateral rescheduling of its debt once it had exhausted all bilateral refinancing possibilities (particularly officially-backed Western credits). It is impossible

(1) For example, the medium-term syndicated loan contracted on 22nd August 1980 after lengthy negotiations was for $325 million whereas Poland was originally hoping to obtain $500 million. Moreover, it appears that many Western banks merely reschedule maturing debts and do not go beyond the existing value of their outstanding commitments to the country.

(2) Some $310 million of officially-backed export credits granted by France have been refinanced by means of 8-year credits granted by a consortium of French banks guaranteed by the French Government, comprising a 4-year period of grace but at the market rate of interest (which makes this operation distinct from a rescheduling).

(3) On the other hand there should be more flexibility in the use of certain lines of credit (e.g. $700 million from France).

to know whether in such a case the Soviet Union would be prepared to give the Polish economy large-scale direct aid in the form of convertible currency(1).

III. LIKELY FUTURE TRENDS

(i) USSR

33. In all likelihood the Soviet Union in 1980 should continue to see its trade develop favourably and achieve a further reduction in its convertible currency trade deficit.

34. The value of Soviet imports in convertible currency will probably rise only modestly, and could even stagnate. Because of the restrictions imposed by the United States Government, purchases of grain will probably remain at a level comparable to 1979's, that is to say, 30 to 31 million tonnes; the value of these transactions may however be higher because of price rises. The drop since 1977 in Soviet orders for capital equipment should start to be seriously felt this year and cause a substantial reduction in deliveries, the value of which will probably be between $4 billion and $4.5 billion. On the other hand, a further increase in imports of iron and steel products, particularly pipes, can be expected(2).

35. Soviet exports should increase under the impact of price rises. In particular, convertible currency sales of oil will further expand in spite of a drop for the second year running in the volume of deliveries (perhaps from between 15 to 20%). Export earnings from natural gas will in all probability rise substantially again because of price movements(3) (the volume of sales should increase by some 10 to 15% to a total of around 20 billion cubic metres).

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(1) There had been rumours that the Soviet Union may have granted a convertible currency loan of $1 billion early in the year. In fact this was a credit against delivery of Soviet goods and not direct financial assistance in hard currency. On the other hand, certain Euro-credits contracted by East European countries with an excellent financial reputation (Czechoslovakia) have allegedly been made over to Poland. More recently it is reported that the USSR granted Poland financial aid made up of (i) a rouble credit equivalent to $260 million; (ii) deliveries of consumer goods to the value of $155 million and (iii) the refinancing of an earlier $280 million credit.

(2) In this connection, mention should be made of the large contracts concluded by the USSR with Japan (procurements up to March 1981 of 75,000 tonnes of large diameter pipes, 200,000 tonnes of seamless drawn pipes and 200,000 tonnes of sheet metal) and with the Federal Republic of Germany (delivery of 700,000 ton large diameter pipes; see AC/127-NEC/A75 dated 8th October 1980).

(3) For example, according to press reports the price of Soviet gas delivered to Austria was increased by some 50% in 1980.

36. Under the combined effects of a trade deficit which is going down and continued big earnings, particularly through gold sales(1) and arms deliveries to the Third World, the Soviet Union will in 1980 probably achieve a large hard currency current account surplus. Consequently, it is likely that reliance on Western credits will remain limited with preference being given, as in 1979, to officially-backed export credits for which, moreover, Moscow still has available large undrawn credit commitments(2). It is quite likely that the new <u>net</u> capital receipts will be negative and that consequently the Soviet Union's net debt in convertible currency will once more go down.

(ii) <u>Eastern Europe</u>

37. The countries of Eastern Europe are striving to restore the balance in their convertible currency external payments and, especially their trade figures. Nevertheless, the situation of Eastern Europe remains rather unfavourable because of the limited chances of a sustained increase in exports to the West. In these conditions, the necessary return to a balancing of trade requires a reduction in imports, which in itself has an adverse effect on domestic economic development; in particular, the growth in East European industrial production is becoming more and more dependent on imports of intermediate products from the West.

38. An additional, but external, negative factor is the increase in the cost of oil imports paid for in convertible currency. Admittedly at present Eastern Europe's purchases of liquid mineral fuels from the OPEC countries remain fairly limited (except in the case of Romania)(3) but the large price rises recorded from the beginning of 1980 will help to reduce the area's available convertible currency and, consequently, its ability to import non-energy products. Moreover, the trend is towards a gradual increase in oil imports from countries other than the USSR and even if the latter continues, as is probable in the medium-term, to be the main supplier of oil (except for Romania), the fact remains that the aligning of Soviet prices on world prices will oblige Eastern Europe to step up its exports to the Soviet Union and this will entail a corresponding reduction in its capacity to export to the West.

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(1) Assuming an average price of $500/Oz, the sale of 100 to 110 tonnes (estimates put forward by certain market specialists) should bring in some $3.4 billion.

(2) At end-1978, the undrawn officially-backed export credit commitments amounted to $6.8 million.

(3) Eastern Europe's imports of oil from the OPEC countries amounted to some 25 million tons in 1979 (of which approximately 15 million tons went to Romania).

TABLE I: TOTAL EXPORTS (IN PRODUCT AND PRODUCT EQUIVALENTS) FROM THE EUROPEAN COMMUNIST COUNTRIES TO INDUSTRIALIZED WESTERN COUNTRIES (x 1,000 metric tonnes)

	1978			1979		
	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS
Belgium-Luxembourg	3,469	-	130	1,586	(55)(3)	(32)(3)
Denmark	2,430	-	408	1,910	-	359
France	4,532	151	225	5,739	297	98
Federal Republic of Germany	8,523	471	3,271	8,906	1,067	3,266
Italy	8,405	-	784	5,968	-	1,044
Netherlands	2,428	233	284	5,726	1,634	1,160
United Kingdom	4,287	28	15	2,742	-	62
Greece	1,991	607	213	1,014	439	762
Iceland	n.a.	n.a.	n.a.	365	-	-
Norway	786	-	38	770	-	17
Portugal	742	22	-	768	36	-
Turkey	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canada	-	-	-	-	-	-
USA	441	922	-	62	388	-
TOTAL NATO(1)	38,034 (2)	2,434 (2)	5,368 (2)	35,556	3,916	6,800
Ireland	407	-	-	361	-	-
Austria	1,838	78	503	1,606	51	627
Finland	9,277	-	1	9,937	-	-
Spain	416	33	20	821	33	29
Sweden	4,201	250	614	4,397	178	500
Switzerland	3,067	93	147	2,205	6	185
Australia	-	-	-	-	-	-
Japan	552	-	-	556	123	-
New Zealand	-	33	-	-	-	-
TOTAL NON-NATO OECD COUNTRIES	19,758	487	1,285	19,883	391	1,341
TOTAL OECD AREA(1)	57,792 (2)	2,921 (2)	6,653 (2)	55,439	4,307	8,141

(1) Excluding Turkey.
(2) Excluding Iceland.
(3) Data on petroleum products only.

Source: Tables II and III

Note: Product equivalents have been obtained by converting the amounts of crude oil to petroleum product by making a notional 7% reduction in their volume.

TABLE II: OIL EXPORTS FROM EUROPEAN COMMUNIST COUNTRIES TO THE NATO AREA (x 1,000 metric tonnes)

	1978						1979					
	CRUDE + FEEDSTOCK + NGL			PETROLEUM PRODUCTS			CRUDE + FEEDSTOCK + NGL			PETROLEUM PRODUCTS		
	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS
Belgium-Luxembourg	787	-	50	2,737	-	83	292	n.a.	n.a.	1,314	55	32
Denmark	1,571	-	20	969	-	389	1,714	-	209	316	-	165
France	3,113	-	-	1,637	151	225	5,136	-	19	963	297	80
Federal Republic of Germany	5,176	174	167	3,709	309	3,116	6,121	326	263	3,213	764	3,021
Italy	7,740	-	90	1,207	-	700	5,934	-	526	449	-	555
Netherlands	345	-	-	2,107	233	284	947	-	5	4,845	1,634	1,155
United Kingdom	2,955	-	-	1,539	28	15	2,157	-	34	736	-	30
Greece	1,635	-	-	470	607	213	962	-	-	119	439	762
Iceland	-	-	-	n.a.	n.a.	n.a.	-	-	-	365	-	-
Norway	685	-	-	149	-	38	692	-	-	126	-	17
Portugal	798	-	-	-	22	-	826	-	-	-	36	-
Turkey	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Canada	-	-	-	-	-	-	-	-	-	-	-	-
USA	38	-	-	406	922	-	-	15	-	62	374	-
TOTAL NATO(1)	24,843	174	327	14,930	2,272	5,063	24,781	341	1,056	12,508	3,599	5,817

(1) Excluding Turkey
(2) Excluding Iceland

Source: International Energy Agency, Quarterly Statistics 1980/1, Paris

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TABLE III: OIL EXPORTS FROM EUROPEAN COMMUNIST COUNTRIES TO NON-NATO OECD COUNTRIES (x 1,000 metric tonnes)

	1978						1979					
	CRUDE + FEEDSTOCK + NGL				PETROLEUM PRODUCTS		CRUDE + FEEDSTOCK + NGL			PETROLEUM PRODUCTS		
	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS	USSR	ROMANIA	OTHERS
Ireland	-	-	-	407	-	-	155	-	-	217	-	-
Austria	1,966	-	43	10	78	463	1,721	-	16	5	51	612
Finland	6,886	-	-	2,873	-	1	7,357	-	-	3,095	-	-
Spain	419	-	-	26	33	20	837	-	-	43	33	29
Sweden	1,717	-	1	2,604	250	613	1,465	-	-	3,035	178	500
Switzerland	379	83	-	2,715	16	147	98	-	10	2,114	6	176
Australia	-	-	-	-	-	-	-	-	-	-	-	-
Japan	59	-	-	497	-	-	43	-	-	516	123	-
New Zealand	-	-	-	-	33	-	-	-	-	-	-	-
TOTAL NON-NATO OECD	11,426	83	44	9,132	410	1,244	11,676	-	26	9,025	391	1,317

Source: International Energy Agency, Quarterly Oil Statistics, 1980/1

TABLE IV: IMPORTS FROM EUROPEAN COMMUNIST COUNTRIES AS A PERCENTAGE OF TOTAL OECD AREA OIL IMPORTS
(Products and product equivalents)

	1978	1979	INCLUDING: IMPORTS FROM USSR	
			1978	1979
Belgium-Luxembourg	9.1	N/A	8.8	N/A
Denmark	15.8	13.2	13.5	11.1
France	4.2	4.7	3.9	4.4
Federal Republic of Germany	8.9	9.3	6.2	6.2
Italy	8.3	6.2	7.6	5.2
Netherlands	4.8	10.2	4.0	6.9
United Kingdom	5.8	4.1	5.7	4.0
Greece	18.1	10.8	12.8	4.9
Iceland	N/A	59.2	N/A	59.2
Norway	8.1	8.1	7.8	7.9
Portugal	10.9	9.0	10.6	8.6
Turkey	N/A	N/A	N/A	N/A
Canada	-	-	-	-
USA	0.3	0.1	0.1	Negative
TOTAL NATO(1)	4.5(2)	4.4(3)	3.7(2)	3.4(3)
INCLUDING: NATO EUROPE(1)	7.5(2)	7.3(3)	6.4(2)	5.7(3)
Ireland	7.0	5.8	7.0	5.8
Austria	24.7	21.7	18.8	15.2
Finland	72.7	65.9	72.7	65.9
Spain	10.0	18.1	8.9	16.9
Sweden	18.3	16.2	15.2	14.0
Switzerland	24.6	18.4	22.9	16.9
Australia	-	-	-	-
Japan	0.2	0.3	0.2	0.2
New Zealand	0.9	-	-	-
TOTAL NON-NATO OECD COUNTRIES	5.8	5.5	5.3	5.1
TOTAL OECD AREA(1)	4.8(2)	4.7(3)	4.2(2)	3.9(3)

Source: International Energy Agency, Quarterly Oil Statistics, 1980/1.

(1) Excluding Turkey
(2) Excluding Iceland
(3) Petroleum products only for Belgium.

Note: The product equivalents have been obtained by converting the amounts of crude to petroleum product by making a notional reduction of 7% in their volume.