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USSR AND EAST EUROPE - RECENT ECONOMIC DEVELOPMENTS

INTRODUCTION

The object of this paper is to examine the 1977 economic performance of the USSR and Eastern Europe and to assess the prospects for 1978 against the background of two recent analyses of Soviet economic growth prospects(1) and energy in COMECON(2).

I. GENERAL REVIEW

(a) 1977 Results

2. The year 1977 has brought confirmation that difficulties are continuing in trying to fulfil the annual objectives of the Soviet Plan. The year's projected growth rate of 4.1%, which was lower than the actual growth of the previous year, was not met: whereas progress of some 5% was achieved in 1976, a growth rate of only 3.5% was realised in 1977 and thus one of the lowest rates since World War II was recorded. The mediocre performance of agriculture has been a determining factor in the failure of the aggregate results in relation to the Plan.

3. On the other hand, the industrial growth rate (5.7%), slightly higher than the Plan, appeared to be relatively satisfactory. However, the performance in several sub-sectors was lower than the plans for 1977. Such was the case in energy (except natural gas), and in investments, which are of fundamental importance for growth, in steel, in cement, and in fertilizers. Moreover, considerable quantities of the best resources have continued to be devoted to defence, thus depriving the civilian economy of some of the most valuable means of development. In the absence of large increments in manpower, productivity has become the key factor

(1) C-M(78)12, dated 3rd March, 1978
(2) C-M(78)15, dated 17th March, 1978

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18 in growth: it has not been up to expectations, reaching only 4.1% for industry, and although clearly above the rate for 1976 it was nevertheless significantly below the target which had been fixed at 4.8%.

4. The delays in relation to the Plan which the results reflect; the unsatisfactory gains in labour and capital productivity in 1977; the increasing difficulty of allocating resources, where growth is small, between sectors where the need for investments is rising, jeopardize the fulfilment of the Tenth Plan. The Soviet leadership recognize these difficulties, and many of the deficiencies of the economic systems: it is open to question whether any measures introduced will remove the shadow cast on growth in the 1980s by the economic development revealed for 1977.

5. In Eastern Europe generally the situation has been little better and in all these nations, with the exception of Hungary, the growth in National Income has been below target. As for the USSR, the major element appears to be the failure of the economies to respond sufficiently to appeals for productivity increases. Current Five-Year Plans are intended to offset the continuing decline in the rates of growth of the basic elements (labour, capital, and productivity). Agricultural production generally continues to fall short of planned levels, in part because of adverse climatic conditions. At the same time, the relatively cheap energy and raw materials available in the Western regions of the USSR and in Eastern Europe are being depleted and replaced by considerably more expensive resources.

6. The continuing sluggishness of the economic demand which characterizes the world economy has affected trade in Soviet and East European goods, as has world inflation; some two-thirds of the 1977 improvement in exports can be accounted for by increased world prices for oil, raw materials or semi-manufactures. However, this sluggishness has allowed the USSR and Eastern Europe to obtain some imports on favourable terms where there has been less demand for such goods in the West.

(b) Prospects for 1978

7. It remains to be seen whether the modest Soviet targets for 1978 reflect greater realism on the part of the planners or whether they still contain, in their various sectors, elements of over-optimism. A comparison of the original 1980 goals with 1977 results and 1978 plans indicates that the Five-Year Plan, in practice, has been scrapped. The consumer, it is intended, will be provided with better services and more desirable products - possibly at higher prices - and agriculture is planned to do better in 1978 than in 1977, but success in that sector will, as usual, depend very much on weather.

8. In Eastern Europe, also, the general drift towards lower growth rates has resulted in far more cautious planning for 1978, with lower rates of investment and more realistic targets. A key factor in all six East European countries will be foreign trade with emphasis on boosting exports to the Western nations in order to procure more hard currency for technology purchases needed to meet growth targets in the last two years of the current Plan period.

(c) Foreign Trade and Indebtedness

9. During 1977 the adverse Soviet and East European trade gap with the OECD countries was halved through a slight reduction in purchases and a concurrent increase in exports, the narrowing of the gap being most marked for Soviet trade. Nevertheless, the governments concerned take an unfavourable view of such trade imbalance and their efforts to redress the situation will continue. The total indebtedness of the region is difficult to assess and according to various estimates now amounts to $45-50 billion; this represents some 4% of GNP or about two years' exports, but it should be noted that at least part of this debt is self-liquidating through repayment in kind. By Western standards the amount, though not negligible, is not likely to give cause for serious concern - except perhaps for Poland - but, in contrast to most of the large Western trading nations, none of the Communist countries considered has any significant assets abroad.

II. COUNTRY REVIEW - USSR

(a) 1977 Economic Performance

10. Information now available on the USSR's economic performance in 1977 confirms the trend which appeared to develop throughout that year of a reduction in the overall growth rate. National Income utilized rose 3.5% in 1977 (1976: 4.7%) - against a Plan for 4.1% - one of the lowest rates achieved since World War II and estimated to be equivalent to under 3% in Western GNP terms(1). An important contributory factor, once again, was the poor performance of agriculture.

Industrial Performance: Selected Indicators

% Growth over 1976

	1977 (Plan)	1977 (Actual)
Aggregate growth	5.6	5.7
Producer goods (A) (2)	5.8	6.0
Consumer goods (B) (3)	4.9	5.0
Steel	5.0	1.4
Cement	5.6	2.4
Chemicals	8.0	7.0
Labour productivity	4.8	4.1
Capital investment (Total, incl. all sectors)	3.0	3.0

11. The target for industrial growth is claimed to have been slightly overfulfilled but was also one of the weakest rates since the 1950s. Available data indicate that the actual volume of production of many key sectors was below Plan. Specifically, the critical steel industry's output was considerably below Plan; this fact, coupled with the need to export more steel for hard currency, probably contributed substantially to industry's poor showing. Chemicals, another leading sector, reflected shortfalls in a number of important categories including mineral fertilizers, plastics and sulphuric acid. Together with the steel shortfall, the weak showing in the cement industry is likely to aggravate the

(1) Unlike National Income, Western GNP includes the value of the non-productive sectors of the economy, e.g. services.
(2) Producer goods: machinery, energy, etc.
(3) Consumer goods: food, clothing, consumer durables, etc.

problems of the vital construction sector but, also, may discourage starting new projects in favour of completing old ones. Improvement in labour productivity was better than in 1976 but was still below the planned increase and accounted for only 75% of aggregate industrial growth instead of the planned 85-90%. The increase in capital investment was below target, and the value of unfinished construction again rose in 1977 despite exhortations to complete old projects before starting new ones.

12. The energy sector reflected a mixed performance in 1977: oil reached 546 million tonnes, up 5% over the 1976 figure, but was some 4 million tonnes short of target; coal output increased by a low 1.3% and was around 11 million tonnes below target; electricity output increased by some 3.5%, less than half of the 1976 rate, and one percentage point below the Plan. Both coal and electricity, therefore, fell well behind the growth rate for industry and barely kept up with the growth of the economy as a whole; moreover, there appears to be little chance of coal replacing oil to any substantial extent before the 1990s. A number of oil producing complexes, including the one at the important Mangyshlak fields, failed to meet objectives to the extent of several million tonnes, and oil output growth in 1977 came primarily from long-established deposits in Western Siberia. On the positive side, natural gas output continued to rise and reached 346 billion m3, up 8% over 1976 and some 4 billion m3 above target.

13. Output of agriculture, which contributes about one-sixth of the National Income, rose by 3% against the planned 7.75%. The grain crop was 18 million tonnes below target - 10% short in terms of food and cattle feed requirements - and in the period 1977-1978 up to 15 million tonnes at least will probably be procured from the United States to prevent a set-back in the livestock sector which has not yet recovered fully from the 1975 harvest failure. Meat production showed a 10.4% upturn, but eggs and milk, by contrast, showed record levels. Although 27% of total investment went to the farm sector last year to help improve the rural road network and boost, among others, the use of chemicals, the output per ruble input remained very low in many crops: although potatoes remain an important staple, output registered a 2% drop compared with 1976 and a 7.1% decline compared with the last Plan period (1971-1975). One consequence of continuing weaknesses in this sector in 1977 was a shift in official attitudes in favour of private plots even to the extent that, ideologically uncomfortable, the new Constitution incorporates a provision for assistance to persons cultivating such plots.

14. The lot of the consumer again showed little improvement: supplies of food, footwear and clothing remained inadequate even though consumer goods production increased by 5%. The increase of 3.5% in income per capita was absorbed substantially by inflation and there was, therefore, little real improvement in living standards. Nevertheless, in spite of low wages, consumer liquidity remained high because of the continued shortages of desirable consumer goods.

(b) 1978 Plan Objectives

15. The 1978 targets(1) announced by the Central Committee on 13th December, 1977 show a dramatic scaling-down of the growth expectations for National Income, industry, and per capita real incomes, compared to the projections made when the current Five-Year Plan was launched in 1976. National Income is to rise by an unambitious 4% (originally: 4.5%). This reduced objective reflects the low growth target for industrial output of 4.5% (6%), one of the smallest increases proposed since World War II. The reductions seem even more dramatic when it is considered that in 1971-1975, the National Income rose by an average of 5.6% and industrial output by some 7.4% a year.

16. Heavy industry is to rise by 4.7% (originally: 6.4%) and production of consumer goods by only 3.7% (5.1%). Equally critical, but perhaps more realistic, is the growth planned for industrial labour productivity at 3.8%, well below the original 5.4%. Although GOSPLAN Chairman Baibakov considered last year's performance of the steel industry highly unsatisfactory, the 1978 planned increase in output of crude steel is set at only 1%; the important steel pipe sector is targeted at 17.7 million tonnes, some 4% higher than the estimated output last year of 17 million tonnes but still well below requirements.

17. In the important energy sector, the 1978 targets are more ambitious. Oil is to increase to 575 million tonnes: whilst this target is down on the original goal for the year by 5 million tonnes, it nevertheless represents an increase of almost 30 million tonnes over last year's output. Most of this increase will come from Western Siberia, but problems in bringing remote fields into production continue to arise and may frustrate this objective. The leading energy branch will still be natural gas with an 8% increase planned, whereas coal is planned to increase only some 2% over the 1977 Plan figure

(1) A number of industrial categories were deleted from the 1978 Plan report, including pig iron, machine tools, heavy machinery, vehicles and certain chemicals, e.g. caustic soda and sulphuric acid.

of 733 million tonnes. The Soviet planners have announced the digging of new shafts in the Donbass and output of high volume open cast mining in an attempt to boost coal production by the final year of the current Plan.

18. The grain target set for 1978 is 220 million tonnes. After the disappointing 1977 crop figure of 195 million tonnes (Plan: 213 million tonnes), it is likely that special care will be devoted to the more efficient use of investments with top priority to be given to construction of grain elevators, compound fodder plants and mechanized livestock breeding complexes, and with the emphasis clearly on agro-industrial units. Unless the grain target is reached this year, it is highly unlikely that the Five-Year Plan average of 215-220 million tonnes can be attained, let alone the high figure of 235 million tonnes postulated at one time by Brezhnev for 1980. The impact could be a further deceleration in industrial growth and National Income, in view of the effects which a bad harvest has on the general level of activity in the Soviet economy.

19. Once more the consumer is unlikely to benefit greatly. Consumer goods production is to rise by 3.7% and an attempt will be made to provide better services and more desirable products - although at much higher prices, apparently, to judge from the increases which came into effect on 1st March, 1978 for a series of items, including coffee, chocolate, some wines, jewellery, gasoline and car repairs.

(c) Implications

20. The Plan indicators for 1978 suggest that more realism will be reflected in economic planning throughout the year. The progressive loss of economic dynamism is reflected in the reduced pace of growth of industries as a whole, of labour productivity and in both coal and electricity production. The most urgent task of the planners remains that of increasing factor productivity in order to offset declining capital returns. Protraction in commissioning new fixed assets and an increase in the backlog of unfinished projects, coupled with the fact that both 1976 and 1977 were generally mediocre growth years, suggest that further downward-revisions of the original Plan targets until 1980 may have to take place, thereby frustrating the hopes of the leadership. Heavy industry, and by implication, defence, will continue to take priority over light industry and the overall slower growth for 1978 could well limit the options for resource allocation more critically than hitherto. If the ratio of production between heavy and light industry is

maintained until the end of this Plan period, the gap between them could prove very difficult to bridge unless consumer item shortages are compensated by higher imports: the consequence could well be an even slower improvement in Soviet living standards.

21. Nevertheless, the lower growth for 1978 could reflect attempts at adjustment to the shortcomings of the economy and qualitative preparation for a period of faster growth in the last two years of the Plan. The emphasis appears to be on higher energy and fuel production to assist industry in boosting future output: the oil industry is confronted with extraction and transportation problems, but these could well be overcome in the short-term without recourse to domestic emergency measures more serious than those already announced. Thus return to higher growth rates in the latter part of the year seems unlikely, but 1978 could see a new wave of procurement of selective Western technology later in the year and in 1979; by the end of next year, and into the final year of the Plan, Soviet planners will be under even greater pressure to improve the nation's industrial efficiency. In such procurement, the accent will doubtless be on advanced technology to improve productivity and to offset labour shortages together with acquisition of critical capital equipment possibly under product buy-back contracts or, perhaps at a slower rate, against credits. There is no indication that the alternative of appreciable transfers of manpower and material allocations from the defence sector is envisaged by the Soviet leadership.

III. COUNTRY REVIEW - EASTERN EUROPE

22. The economic performance of the Eastern European countries in 1977 ranged from a rise in National Income of 8.6% for Romania to a corresponding 4.5% for Czechoslovakia. Except for Hungary this general indicator was below target and reflects continued reduction in the growth rate of each country. The underlying causes are much the same as for the USSR but with different weights applying to each factor: energy supply problems; unsatisfactory labour productivity not offset by updated technology; labour supply problems; inadequate modernization in agriculture; and the inability to balance foreign trade. Without better supplies of more desirable consumer goods, worker incentives will remain low.

23. Attempts are to be made in 1978 to correct some of these deficiencies by modifying Plan targets, to varying extents in the different countries, but, as in the USSR, there seems little likelihood of major economic reforms which would be necessary if more lasting solutions are to be found. Nevertheless, there is evidence that Czechoslovakia and Romania are attempting to introduce some measure of economic reform in planning, management, incentives and the performance indicators, on an experimental basis. Whether they will be substantial enough to have a radical impact is more doubtful.

GERMAN DEMOCRATIC REPUBLIC

(a) 1977 Results

24. In 1977 the GDR achieved a National Income growth of 5.2%, thus recovering from the low 1976 figure of 3.7%, but still slightly below Plan (5.5%). Growth of 5.4% in industrial production, however, exceeded the 1977 aim (5.1%). Within industry, the fulfilment of sectoral goals is less clear, but nine-month figures show strongest production advances in the electronics industry, in machine-building, and in chemicals and building materials. The growth in value of industrial output as a whole followed the declining trend of previous years (6.4% increase in 1975; 5.9% in 1976).

25. Much of the gain in industrial production in 1977 came from increased productivity, which rose at a rate of 5.2% (0.1% ahead of Plan). The 1977 increase occurred simultaneously with a shortening of the hourly work week and a lengthening of the annual vacation alloted to shift workers; both measures were implemented mainly in May 1977. It is not

known to what extent the gain in output resulted from more efficient use of work time or from overtime working. A rise in pensions at the end of 1976 contributed largely to the above-Plan 5.4% advance in personal incomes in 1977, and caused personal savings to grow, particularly amongst the elderly; retail trade turnover grew by only 4.3%.

26. Agricultural yields in 1977 were up sharply from 1976 levels for potatoes, sugar beet, and feed crops. The grain harvest of 8.65 million tonnes (1976: 8.2 million tonnes) was lower than Plan expectations and signals the possibility of grain imports in 1978 greater than anticipated, adding to the GDR's foreign trade deficit.

(b) 1978 Plan

27. The Plan shows the GDR leadership trying to readjust economic growth more closely to the levels of the Five-Year Plan, although above-Plan performance is required if the poor result for 1976 is to be overcome. National Income is to grow by 5.2% (Five-Year Plan rate: 4.9-5.4% p.a.), and industrial production by 5.7% (Five-Year Plan rate: 6-6.3% p.a.). Strongly above-Plan investment growth in 1976-1977 is to be corrected by cutting it back sharply in 1978 to 2.1% (Five-Year Planmrate: 3.6%)(1). Both personal income growth and retail trade turnover are to be slowed and brought into balance: they are each to increase by 4%. Continuing efforts will be made to correct the deficiency in the crucial foreign trade sector.

CZECHOSLOVAKIA

(a) 1977 Results

28. 1977 was a more successful year than 1976; nonetheless, the performance of certain sectors showed deficiencies, and long standing problems remained. National Income grew by 4.5% over 1976, faster than the 4% increase in the latter year, but short of the target of 5.2%. As a result, the Five-Year Plan goal of a 27-29% increase will probably not be met. The principal sectors holding back National Income growth were building construction and transport. As usual a number of plants were not completed in time to receive equipment.

29. Industrial production increased by 5.7% - 0.4 percentage points over the 1977 target and 0.2 percentage points more than in 1976, but still short of the projected Five-Year Plan rate of 5.8% a year. The largest increases in

(1) Excluding GDR investment abroad

industrial output in 1977 occurred in the engineering (7.7%), chemical (6.8%), and wood-processing (6.4%) industries - that is, in those industries singled out for priority development under the current Five-Year Plan. Most other industrial sectors grew at slower rates than they did in 1976 and notable drops occurred in output of coal, because of two mine disasters; and automobiles, because of re-tooling at Czechoslovakia's principal automobile plant. Worker productivity, a key problem in Czechoslovakia, continued to grow but at a declining rate; increases accounted for 83% of the growth in industrial production and 69% in building construction. Industrial wages rose faster, at 4%, than planned, as did net personal incomes at 4.6%. Retail trade turnover, however, increased by only 3.8% partly because of some shortages in consumer goods. It is estimated that unspent purchasing power reached the equivalent of about nine months' retail trade turnover, which may cause problems arising from increased consumer frustration and dissatisfaction.

30. Agricultural output was markedly better than in 1976 when it suffered from a serious drought. Overall production rose 7.9%, or 1% over Plan. The grain harvest of 10.4 million tonnes was an all-time record. Most importantly, livestock production increased by 3.2% - a full 2% over Plan - helping to make up for herd depletions suffered as a result of the drought of 1976.

(b) 1978 Plans

31. Preliminary Plan figures for 1978 show that the Czechoslovak leadership has all but given up hope of reaching many of its original Five-Year Plan goals. Growth in National Income is set at only 4.9% - still short of the 5.2% rate needed to reach a five-year increase of 27-29% - and in industrial production, at around 5%, the lowest planned increase in ten years. Agricultural output is scheduled to grow by 3.4%. Increases in investment, too, have been cut back to 5.6%, as compared to the 1977 target of 5.8%. Investment is to be re-channelled into critical energy and related sectors, including fuels and petro-chemicals, largely at the expense of the machine-building and construction sectors. Clearly, Czechoslovak planners are having to reorient priorities to take account of increasingly expensive energy and raw materials imports.

POLAND

(a) 1977 Results

32. The authorities have made large investments, as well as considerable economic innovation in an attempt to make Poland a highly industrialized nation with a fair degree of genuine consumer affluence. However, the record growth rates of 1971-1975 started to slow down in 1976 and the 1978-1980 Plan targets reflect a greater need for consolidation of existing achievements. Overall growth in 1977 was satisfactory: the rise of 5.6% in National Income just failed to reach the target of 5.7%. Industrial production sales(1) increased by 8.6% - compared to the Plan range of 6.3-7.3% - productivity increases accounting for most of the rise in output. The 1977 Plan was not met by the following key industries: cement, paper, chemical fertilizers, agricultural equipment and electrical power; nonfulfilment of the latter has led to numerous power cuts. Gross investment outlays in the socialized sector which averaged a yearly increase of 17% in 1971-1975 were held to a 2.5% rise in constant prices. The share of National Income represented by gross investment, which many experts thought had been running too high (1975: 34.2%), fell slightly to 31.5%, though with continued emphasis on the machinery and consumer sectors. In agriculture, grain production dropped 7.6% below 1976 levels: almost 8 million tonnes of cereals had to be imported to meet demands, that is equivalent to some 40% of the 1977 grain production.

(b) 1978 Plan

33. The overall Plan for 1978 is to put more life into the new export production capacity Poland has built up over the last five years. National Income growth is to fall slightly over 1977 to 5.5% with industrial production growth set at 6.3-6.8%. The Plan calls for a reduction in the large rises of recent years in investment, thus consolidating present achievements. The consumer sector will remain one of the most critical in the Polish economy because of the population's volatility as demonstrated in June 1976 over the abortive government effort to raise food prices. It is apparent that the success or failure of Poland's intensive efforts to modernize the economy depend on the country's ability to absorb new imported technology and to make the best use of increased capacity. However, the country does to some extent enjoy an "escape hatch" in the form of its CMEA trading relationships (especially with the USSR in view of the increasing trade deficits she has been allowed to accumulate on this account in the past two years).

(1) No figures for gross output increments available.

HUNGARY

(a) 1977 Results

34. Figures so far released for 1977 indicate that the overall economic performance was a success and compared to the previous year it cannot but please the planners. National Income rose 8% over 1976 exceeding the Plan target of 6.5%. Industrial output increased 6.8% (Plan: 6%; 1976: 4.1%) and a good increase was registered both in per capita real income and consumption (4-4.5%). Agricultural output recovered significantly over the poor 1976 results. The major problems for the year were excessive investment (up 13-14% instead of the planned 5%) and a large balance of payments deficit. Several industries registered quite acceptable growth increases: the food products industry up 9.7%, engineering up 7.5%, partially as a result of increased export trade, chemicals up 6.9% and building materials 6.1%. Industrial specialization and technical quality continued to improve, although many items fell below world standards.

(b) 1978 Plan

35. Partially as a result of the continuing energy problem, slackness in world economic growth and an extremely tight labour supply, the emphasis in Hungary in 1978 is on a consolidation of the present economic capacity, through increased efficiency and quality of production. National Income growth is, therefore, to be reduced to 5.5%, with industrial production set at 5.5-6%. Investment may exceed slightly the 1977 level as stress will be on the completion of projects already under way, particularly those devoted primarily to increasing profitable exports. As a result of the acceptable 1977 harvest, continued emphasis is placed on private vegetable, fruit and livestock production. The ability of the Hungarian state and private agriculture to meet growing consumer demands will continue to have a beneficial effect throughout the economy. The nation is seriously affected by increasing energy prices: government guidelines stress that the safeguarding of energy supplies is of key significance for the country's future wellbeing, and that the greatest possible attention should be given to the search of new local fuel reserves. Nevertheless, increases in the domestic production of oil, gas and electricity will be of the order of 4% a year, forcing Hungary to import its energy shortfalls (mainly from the USSR). It remains to be seen whether, as a result of Hungary's 1977 10% revaluation of the forint against the transferable ruble, the cost of Soviet energy supplies will not rise at an even higher rate in 1978-1979, thereby increasing the cost of production and ultimately making Hungarian goods less competitive on the world markets.

ROMANIA

(a) 1977 Results

36. Although most planned targets were not reached and the economy showed its worst performance of the current decade the 1977 results confirmed that Romania has the fastest growing economy in Eastern Europe. National Income increased by 8.6% (Plan: 11.3%), per capita real income 5.7% (5.9-6.3%), investment 11.5% (16.7%), retail sales 6.7% (8.4%), foreign trade turnover 14.8% (15.5%). A sectoral analysis reveals sustained growth in industry at 12.5% (Plan: 10.5%) compared with 11.5% for 1976 with particularly high achievements in shipbuilding and precision engineering. The main obstacles to Plan fulfilment were depletion of the agricultural labour force, especially in skilled labour because of the movement of workers from farming to more lucrative industrial employment; lower than planned investment which resulted partly from the consequences of the earthquake in March 1977; poor labour organization, lack of discipline and high material consumption. The overall labour force does not appear to have increased, and manpower can be seen as becoming an important bottleneck in the economy. In agriculture, there was a setback with output being 1.3% below the 1976 record against the planned increase of 1.9% to 13.6%. Inadequate machinery utilization and low productivity resulted, in part, from the shortage of skilled labour which is thus seen as one of the main causes of the fall in agricultural production.

(b) 1978 Plan

37. In most sectors, except industry, the growth targets set are higher than the 1977 performance and the five year provisions. National Income is to increase by 11-11.5%, per capita real income 7.9%, retail sales 10%, investments 16.8%, industrial output 10.6%, agricultural output 6.9-16.1%, labour productivity in industry 9%, foreign trade 19.1%. Thus with the 1976-1977 results lower than the targets set for the current Five-Year Plan, 1978 is planned to be a year of recovery and progress. The causes of the 1977 failures are unlikely to be removed, however, and this suggests that the target for the year, and therefore for the Five-Year Plan as a whole, will be very difficult to meet, especially in agriculture, in investment and perhaps in National Income. The realization of these problems may have been at the root of the reshuffle at Party and State level announced by Ceausescu on 7th March, 1978 and of the financial and administrative change in the economy which he foreshadowed. These increases are aimed at decentralization and at increased worker

participation in enterprise profits. In the wake of Romania's socio-economic problems the measures will concentrate efforts on improving the economy but it is perhaps doubtful that they can be quickly and effictively implemented; indeed, the re-organization might even have adverse effects on the achievement of the plan targets.

BULGARIA

(a) 1977 Results

38. Once again Bulgaria ranked high in National Income growth: 6.3%. Nevertheless, for the second year running all major indexes of the still expanding economy fell short of Plan provisions. National Income was below Plan by 1.9%, retail sales were up 3.2% as against a planned 7%, investment 3.6% (Plan: 10.6%), labour productivity 7% (Plan: 8.1%), agricultural output decreased by 6.3% (Plan: +4%) and industrial output increased by 6.8% (Plan: 8.9-9.2%). The available information suggests that the Bulgarian economy is in the middle of a downturn, particularly severe in agriculture and investment.

(b) 1978 Plan

39. The difficulties encountered by the economy stretch beyond the usual amount of mismanagement. An energy crisis threatens seriously to aggravate the country's trade deficit and the increase in labour productivity is not sufficient to offset shortage in manpower where numbers have fallen by 27,000. For 1978 the planners have set goals lower than have been seen at any time during this decade - thus reflecting the low economic returns of 1977. Indeed, the 1978 National Income is to increase by 6.8% (as against the 1977 Plan of 8.2%), consumption 5%, retail sales 4.4%, per capita real income 3.6%, investment 4.4%, labour productivity 6.7%, foreign trade 11.5%, agricultural output 5% and industrial production 7.7%. The Five-Year Plan targets are very unlikely to be realized. Increasing economic difficulties may well be reflected in even greater dependence on, and closer ties with, the USSR.

IV. EAST-WEST TRADE

40. An extrapolation of available Western statistics(1) clearly shows the marked trend in 1977 towards a reduction in the trade deficits of the USSR and East European countries with the West. Soviet imports from the OECD area (approximately $13.3 billion) dropped some 3% compared with 1976 whilst exports (around $12 billion) increased by 12%. Thus, the Soviet trade deficit in 1977 was probably around $1.3-1.5 billion against $3 billion in 1976. As regards Eastern Europe, the total negative balance is likely to have declined from $3.6 billion in 1976 to approximately $2.7 billion last year(2). However, the picture is not identical for all countries: in 1977 Poland, the GDR and Czechoslovakia managed to reduce their deficits substantially with the OECD area through the combined effect of import cuts and export increases. Bulgaria's deficit also declined but to a lesser degree because of that country's stable sales. By contrast, both Hungary and Romania recorded a sharp deterioration in their trade balances which arose from a rapid increase in procurement.

41. The external payments position of the COMECON countries continued to worsen in 1977 even though the rate of growth of the debt slowed down in relation to 1976: it is estimated that the total net indebtedness of the area to the West increased by $5 billion last year, reaching some $45-50 billion according to various sources(3). However, for the USSR and to a lesser extent for Poland, an important part of the debt derives from self-liquidating credits, whose repayments are to be made in the form of goods. In order to contain their indebtedness within manageable limits the East European countries will continue to limit their purchases from the West in 1978, although they will be obliged to import some $2-3 billion of cereals, whilst concurrently attempting to boost their sales to Western markets. To secure outlets, they will try to channel their imports via compensation deals. However, this formula often presents difficulties for their Western partners. Moreover, it tends to give rise to conflicts of interest between those sectors of the Western economies exporting to the Communist countries and those producing goods in competition with Soviet and East European products delivered under compensation agreements.

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(1) Data relating mostly to an 11-month period.
(2) Including intra-German transactions.
(3) UN ECE report gives a limit of $40 billion but this figure could exclude some short-term credits.