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N A T O C O N F I D E N T I A L

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ADDENDUM 2 to
AC/127-WP/575

ECONOMIC COMMITTEE

Addendum 2 to Working Paper AC/127-WP/575
dated 29th May, 1978

Note by the Acting Chairman

This paper and the accompanying graphs are intended as a draft summary of AC/127-WP/575. As soon as it has been approved, and possibly amended, by the Economic Committee it can be forwarded to the Council. Subject to Committee approval, AC/127-WP/575, revised in the light of data on export credits granted by NATO countries to the Communist countries in 1977 (see Addendum dated 10th August, 1978), will also be forwarded to the Council in the form of an Annex.

(Signed) P. JOSEPH

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N A T O C O N F I D E N T I A L

OFFICIALLY-BACKED EXPORT CREDITS GRANTED BY NATO
COUNTRIES TO THE COMMUNIST COUNTRIES FROM 1975 TO 1977
AND OTHER FORMS OF EASTERN COUNTRY BORROWING

Draft summary of the Economic Committee report

(i) Officially-backed export credits granted by
NATO countries

- New credits (commitments)

1. During the last few years the Communist countries have received a large volume of officially-backed export credits from the NATO countries whose new commitments (excluding those of the United Kingdom) amounted in 1975 to \$5.8 milliard, in 1976 to \$7.0 milliard and in 1977 to \$6.4 milliard. Poland and the Soviet Union were the main recipients, accounting in 1977 for three-quarters of all the credits granted by Allied countries to the Communist countries as a whole (\$2.5 milliard and \$2.4 milliard respectively). However, Soviet borrowing dropped sharply by 30% while borrowing by Poland rose rapidly (+37%). Of the other East European countries the GDR made most use of this form of financing (\$0.5 milliard). The year 1977 saw a big rise (+130%) in the credits extended to China, which amounted to \$0.4 milliard. The Soviet Union, Poland, Bulgaria, the GDR and Cuba use mainly long-term credits whereas Romania, Czechoslovakia and Hungary seem to prefer short and medium-term loans (less than 5 years). The Chinese have never accepted credits of over 5 years (c.f. Graph 1).

- Credits outstanding(1)

2. Outstanding export credits granted by the NATO countries to the Communist countries as a whole stood at \$25.0 milliard at end-1977, which is 29% more than the figure for the previous year. The Soviet Union is the biggest debtor with a debt burden (for this type of credit) of \$12.4 milliard or 22% more than in 1976. The debt burden of the East European countries rose twice as fast as that of the Soviet Union to \$11.0 milliard or 45% more than in 1976. For the second year running, there was a 55% increase in credits outstanding to Poland, which totalled \$7.0 milliard. On the other hand, the Hungarian debt burden (\$0.1 milliard), which is the lowest of any Communist country except Vietnam, went down again (by 27%). This is explained mainly by the fact that it is

(1) All the figures for outstanding credits given in this paragraph refer exclusively to committed credits and are not therefore an indication of outstanding debt, i.e. of credits drawn and not repaid.

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Hungarian borrowing policy to make use of bank credit from the private money markets. Outside Europe, there was a slight (-4%) drop in the Chinese debt burden (\$0.7 milliard) while that of Cuba (\$0.6 milliard) went up 15% (c.f. Graph II).

- Credits used (drawings) and debt servicing

3. The export credits actually released by the members of the Alliance(1) to Communist countries rose slightly from \$4.4 milliard in 1976 to \$4.7 milliard in 1977. Although 9% down on the previous year, drawings by the Soviet Union (\$1.9 milliard) remained higher than those of each of the other borrowing countries. Credits taken up by Poland (\$1.5 milliard) rose much more rapidly (about 65%) while those taken up by the GDR (\$367 million) and Romania (\$169 million), the two other biggest East European recipients, registered a smaller rise (of 10% and 27% respectively). Drawings by China (\$427 million) were up 8% (c.f. Graph III).

4. In 1977 repayments(2) by the Communist countries of officially-backed guaranteed export credits from member countries of the Alliance amounted to \$3.1 milliard, or 26% more than the previous year. The biggest payments came from the Soviet Union, with \$1.2 milliard or +22% and Poland (\$0.7 milliard), which registered a very big (114%) rise over the previous year. At the same time, repayment by the GDR of \$183 million was somewhat lower than in 1976 because of an extension of the average loan-period for credits granted to this country. The ratio between repayments (for this category of credits only) and export earnings on Alliance markets was, in 1977, highest for China (38%), Poland (26%), Cuba (24%) and Bulgaria (19%).

5. In most cases, the net effect of officially-backed export credits from NATO countries on the balance of payments of the Communist countries was positive. In 1977, the excess of credits drawn over service payments on earlier loans stood at \$839 million for Poland, \$592 million for the Soviet Union and \$184 million for the GDR(3). On the other hand, repayments outstripped credits taken up in the case of Romania (-\$65 million), China (-\$19 million) and Hungary (-\$10 million).

(1) Excluding the United Kingdom.

(2) Principal plus interest.

(3) These figures should be compared with the 1977 FOB-FOB trade deficit of these three countries vis-à-vis those of NATO: \$920 million for Poland, \$1,359 million for the USSR and \$305 million for the GDR.

- Export credit policy

6. Most Western countries have tried recently to introduce uniform conditions for the granting of officially-guaranteed export credits in order to avoid undercutting and no-holds-barred competition, which is prejudicial to their long-term interests. A gentleman's agreement was reached in the OECD in June 1976 and renewed in February 1978 by nearly all the members of the Organization. Under the terms of this agreement, the countries agreed to impose a maximum duration for loans and a minimum rate of interest. But the agreement does not apply to certain goods nor does it affect lines of credit extended before it was reached.

(ii) Bank credits obtained on the private money markets

7. Particularly since 1973 and 1974, and in addition to officially-backed credits, the Communist countries have made much use of the funds available on the private money markets. The increase in the net debt burden of the European members of COMECON vis-à-vis West European(1), American and Japanese banks was especially notable in 1975 (+\$8.6 milliard) but it fell off slightly in 1976 to +\$5.1 milliard and, even further, in 1977 to +\$3.8 milliard; at end-1977 the net debt stood at \$25.2 milliard or about half the Group's total convertible currency debt. Poland's net debt of \$6.4 milliard at end-1977 was the biggest and has been rising constantly. But the Soviet Union's debt burden, after reaching an all-time high of \$7.8 milliard in June 1977 had dropped appreciably to \$6.3 milliard by the end of December. The other big debtors are the GDR(2) (\$3.4 milliard) and Hungary (\$3.3 milliard). Lastly, unlike the other Communist countries, China enjoys a big surplus with Western banks (\$2.2 milliard at end-1977) (c.f. Graph IV).

(iii) Unsecured supplier credits

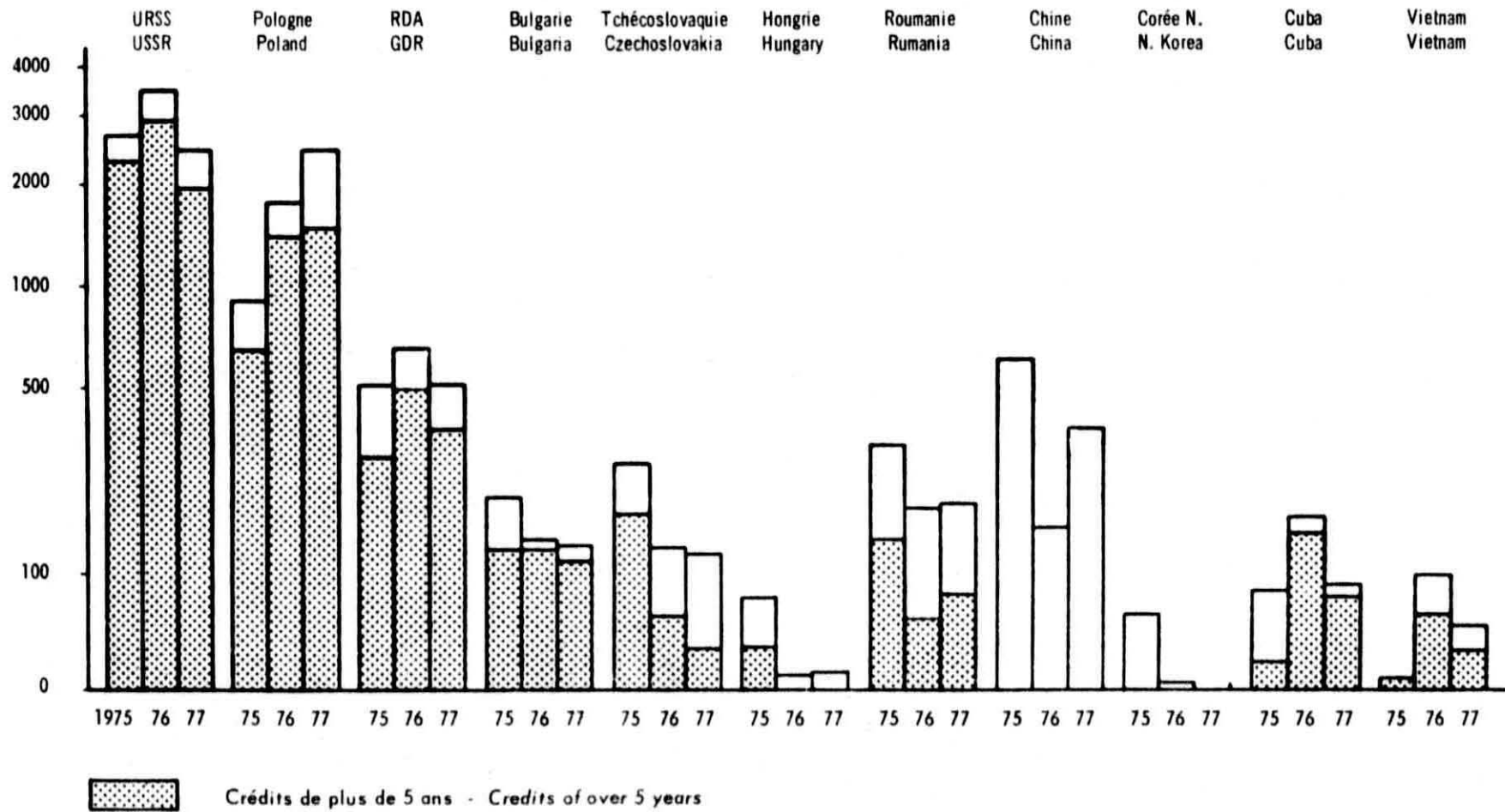
8. The Communist countries (except Hungary) also make use of unsecured supplier credits, but much less so than of officially-backed export credits or bank credits. Most Western exporters surrender Soviet and East European bills to their banks or sell them on the à forfait market. The value at end-1977 of outstanding bills issued by the Communist countries on this market has been roughly estimated at \$4 milliard.

(1) Excluding Austrian and Finnish banks.

(2) Excluding debts owed to banks in the Federal Republic of Germany.

GRAPHIQUE I - GRAPH 1 : NOUVEAUX CREDITS (ENGAGEMENTS) OCTROYES PAR DES PAYS DE L'OTAN (1)
NEW CREDITS (COMMITMENTS) GRANTED BY NATO COUNTRIES (1)

(million US \$ - millions de \$ E.U.)

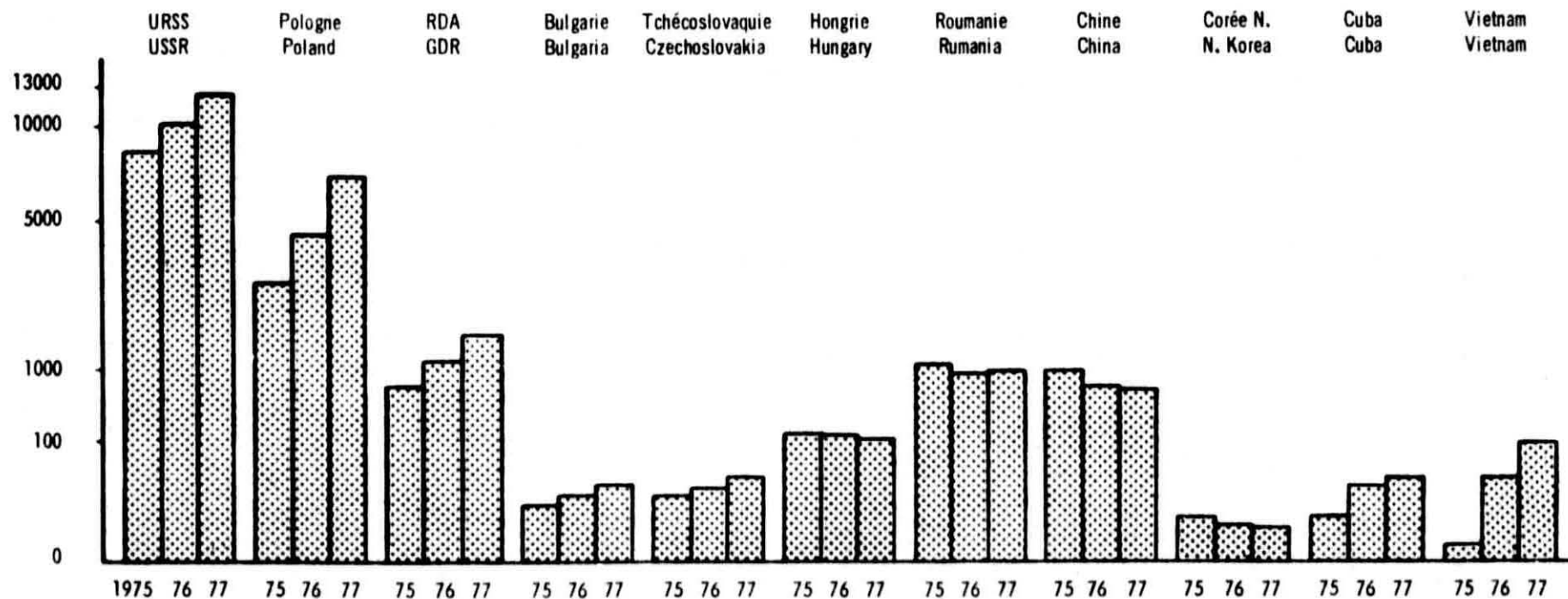


(1) Royaume-Uni exclu - Excluding The United Kingdom

GRAPHIQUE II - GRAPH II : ENCOURS DES CREDITS (ENGAGEMENTS) OCTROYES AUX PAYS COMMUNISTES PAR DES PAYS DE L'OTAN (SITUATION AU 31 DECEMBRE)

OUTSTANDING CREDITS (COMMITMENTS) TO THE COMMUNIST COUNTRIES GRANTED BY NATO COUNTRIES (AS AT 31ST DECEMBER)

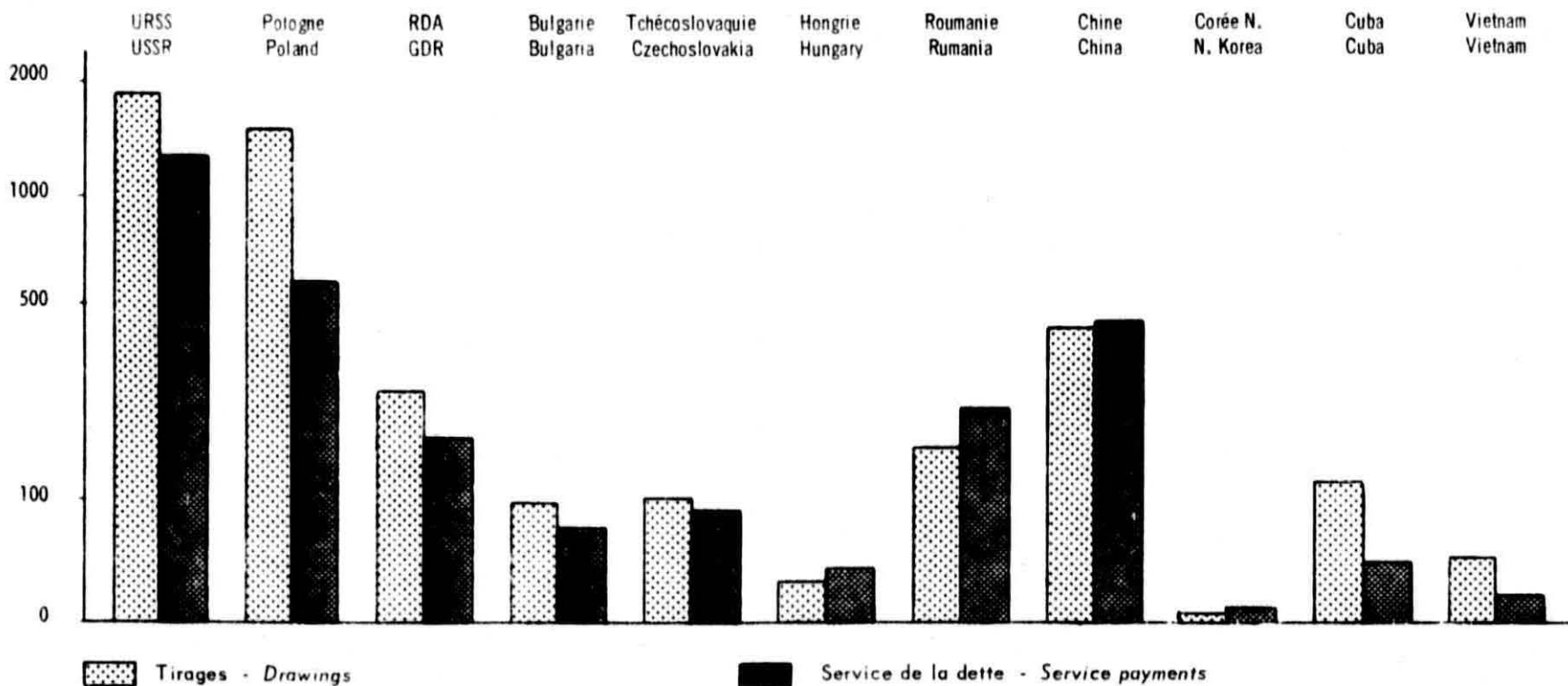
(million US \$ - millions de \$ E.U.)



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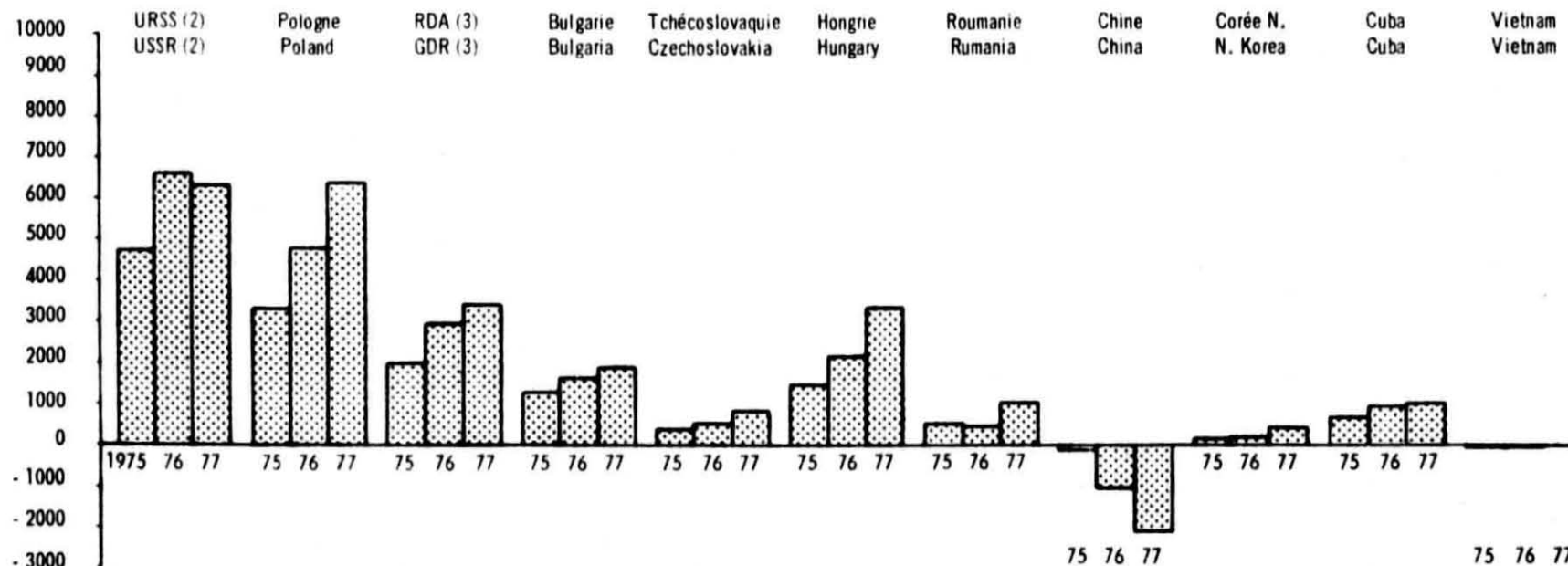
GRAPHIQUE III - GRAPH III : TIRAGES (1) ET PAIEMENTS AU TITRE DU SERVICE DE LA DETTE (2) (3) EFFECTUES PAR LES PAYS COMMUNISTES EN 1977
DRAWINGS (1) AND SERVICE PAYMENTS (2) (3) BY COMMUNIST COUNTRIES IN 1977

(million US \$ - millions de \$ E.U.)



- (1) Non compris les tirages effectués sur les crédits octroyés par le Royaume-Uni et, durant le second semestre, le Danemark -
Excluding drawing from credits granted by the United Kingdom and, during the second half of the year, Denmark.
- (2) Principal plus intérêts - Principal plus interest.
- (3) Non compris les paiements reçus par le Royaume-Uni et, durant le second semestre, par le Danemark -
Excluding payments received by the United Kingdom and, during the second half of the year, Denmark.

GRAPHIQUE IV - GRAPH IV : ENDETTEMENT NET DES PAYS COMMUNISTES A L'EGARD DES BANQUES OCCIDENTALES (1) (SITUATION AU 31 DECEMBRE)
COMMUNIST COUNTRIES NET INDEBTEDNESS TO WESTERN BANKS (1) (AS AT 31ST DECEMBER)
(million US \$ - millions de \$ E.U.)



- (1) Banques des pays du Groupe des X et de Suisse et Succursales des banques américaines situées dans la zone des Caraïbes et en Extrême Orient - Group of X and Swiss banks, and branches of U.S. banks in the Caribbean and the Far East.
- (2) Y compris les banques du COMECON - Including COMECON Banks.
- (3) Non compris l'endettement à l'égard des banques de République Fédérale d'Allemagne - Excluding indebtedness to Federal Republic of Germany Banks.

SOURCE : Banque des Règlements Internationaux - Bank of International Settlements.