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ECONOMIC COMMITTEE

ECONOMIC DEVELOPMENTS IN THE GDR, HUNGARY AND CSSR

Note by the Chairman

Attached for the attention of the members of the Economic Committee are the summary reports prepared by the Economic Directorate on the Reinforced Experts' meetings held on 10th and 11th July, 1975, to discuss economic developments of the GDR, Hungary and Czechoslovakia in 1974.

2. The basic documents for discussion, which provided the salient data for the summary reports were prepared respectively:

- on GDR: by the German Delegation (AC/127-D/513 of 10th June, 1975). This document was supplemented by a paper from the US Delegation ("The GDR and Economic Realities" dated 9th July, 1975) distributed during the meeting, also by further comments from the UK Delegation;

- on Hungary: by the French Delegation (AC/127-D/511 of 23rd May, 1975) and by the Canadian Delegation (AC/127-D/507 of 29th April, 1975). These documents were supplemented by a paper from the US Delegation ("Economic assessment on Hungary") received on 16th July, 1975;

- on CSSR: by the UK Delegation (AC/127-D/514 of 10th June, 1975) supplemented by a paper from the US Delegation ("Foreign economic trends and their implication for the US" - June 1975) and from the Canadian Delegation ("Czechoslovakia. Current Economic Conditions, Foreign Trade. Information Note" 10th July, 1975).

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ECONOMIC DEVELOPMENTS IN THE GDR, HUNGARY AND CSSR

GENERAL INTRODUCTION

1. This report is concerned with three of the six East European countries: the German Democratic Republic, Czechoslovakia and Hungary. Each of the East European countries has its own characteristics and problems, but there is much that is common among them.

I. COMMON FEATURES

(a) Steady growth

2. All the East European countries apparently continue to enjoy a satisfactory rate of economic growth. Even if the official figures of national incomes are deflated so as to make allowance for some exaggeration, there remains a constant upward trend in economic output which, on the face of it, compares favourably with the ups and downs of the market economies.

3. It must be borne in mind, however, that from some points of view the composition of this output is not very satisfactory. Planners organize production and development according to the politically motivated preferences of the Party and bureaucracy, the mechanism for registering consumer demand having been eliminated. The priority for capital goods was treated as an ideological principle of these regimes; in practice it gave rise to situations where, as has been admitted by the Party in Poland, production was for production's sake.

4. Under pressure of events, however, the authorities in the centrally controlled economies are having to pay more attention to the wants of the people: labour is getting more scarce and must, therefore, be utilised more effectively. Material incentives have to be made available which means that more consumer goods have to be produced. This factor emerged in the mid-fifties, became quite clear in Poland at Christmas 1970 and must now form part of the calculations of all planners.

5. This constitutes a limitation to their discretion. It means that investment should decline relative to consumption and that more of the capital available must be invested in the consumer sector and less in the capital sector.

(b) The economic model challenged

6. The Stalin type economy, which was foisted on all the countries of Eastern Europe in the early post-war period,

continues with some modifications to be the dominant model throughout the area. The centralisation of planning and control suits the Party since it favours the achievement of their politically motivated priorities and the planning bureaucracy has acquired a vested interest in its survival. The system, though it has the advantage of stability, is wasteful economically in an increasingly complex structure. There is a body of opinion in all COMECON countries which favours decentralization of economic planning with reliance on economic criteria to guide decisions, including a rational price system and a market mechanism to co-ordinate the activities of all economic sectors. There has been much more interest in "economic reform" in the more developed COMECON countries like the GDR, Poland, Czechoslovakia and Hungary than in Romania and Bulgaria. At the present time only Hungary is seriously pursuing reformist measures and it is doubtful how far these will be pushed.

(c) A tight low-output labour situation

7. Labour is rather scarce in all the countries considered. In the past the industrialisation programme involved the combination of maximum labour with available capital to achieve the greatest output. The labour force includes a very high proportion of women and the rural population was drawn in on a big scale. It would be impossible to continue to develop on this "extensive" scale since the extra labour is just not available and for some time the demand has been for "intensive" development which implies a more efficient use of labour, that is, more suitable equipment, more economic use of fuel and materials, better methods of work. There is considerable scope for increased labour productivity, but this implies weeding out unsuitable labour and discontinuing unprofitable activities. However the planners are hesitant to adopt this new approach which would raise the problem of re-employment of workers considered ill-suited to their current jobs.

(d) Strong dependence on trade

8. The countries considered in this report are small, generally lacking in raw materials and sources of energy, but quite highly industrialised. Therefore they are highly dependent on foreign trade which is equal to about 30% of their national product. In terms of value of exports per head of population, the GDR ranks first followed by Czechoslovakia and Hungary: these countries should have specialised in manufactured products which other countries are prepared to buy. Unfortunately for them they have in the past been induced to produce as a matter of priority goods which the USSR wants rather than those which might find a ready market in the West.

(e) Clear decline in the terms of trade

9. Prices in intra-COMECON trade have always been broadly linked to those obtaining earlier on world markets(1), and it is almost inevitable that the shift in the terms of trade in favour of oil and raw material producers on world markets should also be felt within COMECON. This development brings considerable advantage to the Soviet Union which supplies the bulk of the oil, gas and raw material requirements of most of the other COMECON members; to a limited extent Poland and Romania benefit from the situation as they are respectively net coal and oil exporters.

10. The growing cost of Western capital equipment, the contraction of Western market outlets, the sharp upturn in prices of Middle East oil and other raw materials have all weakened the position of the East European leaders who considered applying economic reforms and wished to introduce certain market mechanisms into their trade structures, together with more rational prices and realistic exchange parities so as to boost trade with the West. The current situation strengthens the position of those leaders who support the concept of privileged trade development with the USSR. For its part, the Soviet Union may increase its current pressures on its East European partners with the goal of greater politico-economic integration - an objective which largely serves its own interests.

II. PRICE AND INFLATION ISSUES

11. As a result of internal inflation and recent developments on world markets the problem of price fixing in the East European countries has become modified. Hitherto, it has been policy in these countries to keep prices, particularly consumer prices, unchanged over longish periods. These prices did not necessarily reflect either real cost or demand, but were fixed to suit the convenience of planners. In some cases (e.g. automobiles) consumer prices include heavy taxation which tend to discourage demand. In other cases (foodstuffs) subsidies are introduced to stabilise living costs.

12. Price stability has not meant that inflation is absent in these countries but is reflected in different ways: shortages

(1) In the Plan period 1970-1975 the intra-COMECON reference prices, depending on the categories of goods involved, were based on world market prices operative in 1960, 1962 or 1965. The subsequent inflationary spiral in the West had no impact on Soviet-East European relations until Moscow decided to introduce the new pricing system for their raw materials

of goods and services, queues, black markets and excess liquidity, which take the form of rising savings accounts and hoarding of money(1).

13. Inflation comes in other forms also: the prices of staple items do rise considerably and regularly, but only on the black or parallel markets which operate with the connivance of the authorities. The official price index, by contrast, remains constant only reflecting prices on the state markets where, however, many goods are unobtainable or in limited supply.

14. Until recently in most COMECON countries it was possible to insulate domestic prices from external prices by an internal pricing system(2). Consequently, imported inflation has hitherto not been a great problem for the consumer, nor for the external trade balance of the Eastern countries as long as export prices rose proportionately to import prices, thus having no impact on the terms of trade. Subsequently, since the deterioration of the latter, the Eastern countries are finding it increasingly difficult to remain unaffected by world price increases. In this context, Hungary, for example, has particularly felt the results of this imported inflation - mainly due to its New Economic Mechanism (NEM) which attempted to align internal prices to prime costs and import prices.

15. The peculiar COMECON price system would appear to be exerting pressure in two main areas:

- in the first place certain fundamental goods such as meat and living space are subsidised; to the extent that demand for these goods is allowed to rise, the burden of subsidy may become very great;

- secondly where there is a significant change in the structure of costs, as for instance when the terms of trade deteriorate, it becomes increasingly difficult to maintain the artificial price system. If more domestically produced wealth has to be surrendered for investment and a given quantity of imported materials, the domestic consumer has to be satisfied with less. If the price system ignores a change of this kind it imposes an extra burden of production inefficiency on the economy.

(1) As some of the increased saving is intended to finance the purchase of very expensive consumer durables such as motor cars, country houses, TV sets etc. the degree of inflation cannot be assessed on the basis of savings accounts development

(2) c.f. footnote (1) page 4

III. OUTLOOK

16. The prospects for countries such as the GDR, Czechoslovakia and Hungary seem none too good at the moment. The recent rise in the real cost of raw materials and fuel, added to the existing structural problems of scarce labour, the obligation to direct trade, and to some extent production, into politically determined channels, the lack of flexibility in the system which, again for political reasons, cannot easily be changed, constitute a serious burden. In these circumstances, it is going to be difficult to maintain let alone improve the standard of living. The recent practice of raising wages without commensurately increasing the supply of consumer goods has merely exacerbated the latent discontent.

17. Under these circumstances it is likely that the Soviets, wishing to avoid serious problems and to support the local national leaders in Eastern Europe, will not take the fullest advantage of their economic superiority: by contrast, they will doubtless call for a greater degree of submission to Moscow's politico-ideological line.

18. The crisis throughout the West has clearly dampened demand for Eastern Europe's goods. On the other hand the Soviets can now more confidently proclaim the advantages of integration within the socialist area, even to the extent of making out an economic case for East European investment in Soviet development areas on the grounds that this would secure them both the necessary raw materials and a market for their manufactured products.

PART I - THE GERMAN DEMOCRATIC REPUBLIC

19. The German Democratic Republic in spite of mounting difficulties continues to show a remarkable stability steadily improving its performance in output and consumption. Though highly dependent on foreign trade and therefore, to some extent at least, open to the influence of world trends, it has so far managed to avoid any serious symptoms of inflation or the undermining of living standards.

20. The authorities in the German Democratic Republic have been concerned to give the impression that their basic policies continue on the same lines as hitherto, that economic performance is coming out according to plan, and that the difficulties which have emerged in connection with the shift in the terms of trade will be overcome as the result of guidance from the Party and some extra effort willingly given by the public.

21. The GDR leaders have a restricted choice of options. They make much of the fact that the maintenance of close relations with the USSR is the cornerstone of their policy, and it can be argued that in practice they serve the interests of the Soviet Union rather than those of their own people. Certainly the structure of the GDR foreign trade and the pattern of production associated with this are more in keeping with the Soviet aspirations than with the best interests of the GDR economy. The need to conciliate the Soviets is also, no doubt, the reason why the economic model in the GDR continues to be inflexible, and many observers maintain that the dogmatic approach to agriculture, dictated by political and ideological considerations, constitutes an unnecessary burden on other sectors of the economy.

22. Within the context of this dependence on the USSR, however, the GDR leaders have obviously tried to defend their own interests, notably relative to the other COMECON countries, and they have tried hard to improve the standard of living. Despite the constant adulation of the USSR in the GDR media, the Soviets have not always been too happy with GDR economic policy. When Honecker was called to replace Ulbricht a few years ago, he was required to give up the idea of a special German approach to COMECON development, and at the academic level in the Soviet Union East German policy has been criticised in that the development of the energy base and growth generally have been sacrificed to maintain a standard of living higher than that prevailing in other socialist countries.

I. RECENT ECONOMIC PERFORMANCE

23. Judging by official figures, economic performance in the GDR has been quite satisfactory and up to the expectations

of the current Five Year Plan. It has been pointed out, however, that an element of uncertainty exists here since the authorities are constantly altering targets and are very experienced in manipulating data.

24. The net material product has continued to expand at an average rate of 5.5% over the period, industry at 6.5%. Agriculture, usually a weak point in COMECON economies has done well. The excellent results in 1972 and 1974 brought the average growth for 1971/74 up to 4.9% so that the average of 2.4% for the period will be surpassed.

25. Many observers in the GDR had doubts whether the 1975 targets would be achieved given the difficulties occasioned by the deterioration in the terms of trade, but the results of the first half of the year seem very encouraging.

II. CURRENT PROBLEMS

26. Even if it can be assumed that the targets of the present Plan will be attained, there is a general belief that the difficulties facing the regime are increasing.

(a) Labour

27. One of the intractable problems of the GDR economy is the chronic shortage of labour. It is true that the regime has lived with a tight labour situation for a long time and has coped quite well. But it is becoming increasingly difficult to get even small increments of labour since nearly all the sources, such as rural labour and housewives have already been utilized. Resort to immigrant labour has also been considered and indeed tried on a modest scale but the opinion of expert observers is that relief from this source is likely to be slight. This means that the sole key to the problem is rising productivity. Very great importance at the moment is being given to "intensification" that is the better use of labour and equipment and economy in the use of materials and power. Undoubtedly there is scope for improvement in the GDR, as in other countries of the area, but any big improvement would seem to imply a serious alteration in methods, structure or the attitude of people. This would mean on the one hand, increases in investment which are hardly available, the application of methods which may be difficult in an inflexible system, and a willingness on the part of the workers to alter their jobs to work extra shifts or to make efforts which may or may not be fostered by the ideological themes at present accepted by the regime. All in all it would seem therefore that although gradual improvement can be expected, rapid developments in the field of productivity will be difficult to achieve.

(b) Raw materials and fuel

28. The second major problem facing the regime is the shortage and increased cost of power and raw materials. To some extent this problem, too, is an old one. Over most of the post-war period the East German leaders have been inclined to push hard the manufacturing aspects of industrialisation on the assumption that it should be possible to import relatively cheap fuel and raw materials. A feature of the current Five Year Plan was the recognition that more effort should be put into building up the power and raw material base, but it is obviously no easy matter to continue to expand output and raise the standard of living, and at the same time to make the economy less dependent on imported material. The recent rise in the price of fuel and raw materials, the bulk of which comes from the Soviet Union will clearly have a serious impact on the GDR economy. Already this year the USSR is charging more for its exports than was agreed in the Five Year Plan, which means that the GDR has to surrender more of its manufactures in return. Like the other COMECON countries, the GDR has an economy which is tightly stretched. It has not the flexibility which a market economy would normally have to absorb a change of this kind without strain. Increased exports to pay for dearer Soviet material must mean a decreased export to other COMECON countries, to the West, or to the less developed world. In addition to this there is the difficult question of increased domestic prices.

29. The regime has from the start recognised that the shift in the terms of trade is a burden on the GDR economy and that measures will be necessary to counteract the effects of this development. They have mounted a campaign for increased productivity in honour of the 9th Party Congress, which involves efforts to economise in the use of fuel and materials, the consistent application of improved techniques, improved working methods, including overtime and extra shifts.

(c) Prices

30. Many observers are convinced that a rise in prices cannot be delayed beyond next year, which means that that would be worked into the next Five Year Plan. It has already been announced that certain products will cost more from January 1976 - fuels, metals, chemical products, building materials, but as yet the price of consumer goods is not supposed to be affected.

31. The regime is understandably loath to accept a rise in consumer prices. It has hitherto been a strong propaganda point that consumer prices remain stable in socialist economies and that the COMECON system is strong and independent enough

to resist the impact of the waves of inflation which are creating such havoc in the market economies. Party leaders who until recently drew comfort from the difficulties experienced by the West are particularly reluctant to admit that their system, too, might be affected by world economic trends beyond the control of the national planners.

32. There are signs, however, that their attitude is changing. On the one hand smug comparisons between inflation in the West and stability in the COMECON area are discouraged, and on the other an attempt is being made, it would seem, to prepare the public for a rise in consumer prices.

33. Apart from the ideological aspects of the issue, the GDR leaders are particularly anxious not to permit living standards to fall, since the attainment of higher material and cultural standards in the context of rising production was declared to be the main objective of the present Plan. Pending the decision on consumer prices, a rise in which would imply some cut in the standard of living, the authorities are currently resorting to two palliatives. In the first place, a larger proportion of imports are being financed by credits. This is a feasible short-term relief since hitherto the GDR, which is very creditworthy, has not taken much advantage of the credits available in the West. Secondly the GDR permits its citizens to acquire Federal German marks and to spend them in special shops. These are obtained as gifts from relatives in the Federal Republic of Germany and in effect they make it possible for GDR citizens to buy additional quantities of foodstuffs, beverages and non-durables produced in the West. This eases to some extent the domestic market situation.

(d) Foreign trade

34. For a highly industrialised country such as the GDR with its small raw materials base and its high level of output and consumption, foreign trade is extremely important, amounting to about 30% of the national income. The country suffers somewhat in that it has had to specialise in the commodities of interest to its COMECON partners and particularly the Soviet Union. For political reasons trade with the USSR is kept at a high level while trade with its natural partner the Federal Republic of Germany is kept at a modest level: in 1973 trade with the USSR was almost four times that with the Federal Republic of Germany and West Berlin. It is largely due to West German efforts that inter-German trade remains as large as it does; the GDR draws more economic advantage from this than the Federal Republic of Germany, but from the West German angle GDR deliveries to West Berlin are important.

35. In the last couple of years GDR trade with the West has risen considerably as is the case with all COMECON countries. Much of the increase, however, is due simply to the rise in prices on Western markets. According to ECE figures, whereas GDR trade with COMECON members rose 10.7% in 1974, trade with the non-socialist countries rose 37% in value but only 11.4% in volume.

III. OUTLOOK

36. Despite the considerable success of the regime so far in maintaining price stability and rising standards it does seem that some changes are inevitable. The unusual attention now being given to the need to raise productivity would have greater effect were it not for the inflexibility of the system and the fact that initiatives suggested by the economic officials are consistently stultified by party officials since they generally imply some further development of East-West relations. In these circumstances most observers believe that a rise in consumer prices must come and that it will mean some deterioration in the standard of living. This will entail some further disillusionment with the sytem but it is not likely to provoke more than passive resentment. To a large extent the public which is informed and sophisticated will be prepared for the event.

37. The leaders are reported to be putting what pressure they can on Moscow not to make their task more difficult than it need be. They may have reason to believe that the Soviet Union, though naturally taking advantage of the fact that the terms of trade have moved in its favour, will probably choose not to push its advantage too far. The Soviet leaders will wish to avoid a situation which would give rise to popular unrest in Eastern Europe. They will also be most anxious to avoid a situation where the leaders of several COMECON countries might discover that they had in common a legitimate grievance against the USSR.

TABLE I

THE GERMAN DEMOCRATIC REPUBLIC

Statistical Annex

Population (end 1973)	16.951 millions
Area	108,178 sq.km
Density	157 per sq.km
Agricultural land	6.3 million hectares
Sown area	4.6 million hectares
Birth rate (1973)	10.6 per thousand

TABLE II

Net material product (1973)	127 mia marks
GNP (Western estimate 1973)	48.8 mia 72 $
GNP per head	$2,871 72 $

TABLE III

Use of Net Material Product

	1971 %	1972 %	1973 %
Consumption	77.2	77.9	77.9
(a) Private	67.4	67.8	67.7
(b) Public	9.8	10.1	10.2
Investment	22.8	22.1	22.1
(a) Fixed	19.0	18.6	19.1
- Productive	11.3	10.7	10.8
- Non-productive	7.7	7.9	8.3
(b) Increase in stocks	3.8	3.5	3.1

TABLE IV GROWTH RATES

	1971/75 Plan	1971/74 Result	1975 Plan	1975 First Half
NMP	4.9	5.5	5.5	5.5
Industry				
Gross output	6	6.5	6.3	6.8
Productivity	-	6.0	5.6	6.0
Agriculture	2.4	4.9	2.4	
Building	5	5.2	6.7	7.9
Gross fixed investment	-	4.2	-	-
Net money income	-	4.4	4.4	4.3
Income per head		5.0		
Retail trade	4.1	5.4	4.6	4.2

TABLE V SECTOR SHARE OF RESOURCES AND CONTRIBUTION TO NATIONAL INCOME

Contribution to NMP %	SECTOR	Share of Labour %	Share of Fixed Capital %
10.6	Agriculture	14.5	13.1
61.6	Industry	62.4	64.2
8.1	Building		
5.0	Transport	9.3	15.7
13.1	Trade	13.1	7.0
1.6	Other material activity	0.7	
100	"Material" production	100	100

Calculated from data in COMECON Yearbook 1974

TABLE VI — FOREIGN TRADE

Exports, Imports, Balance 1970-1973

(milliard valuta marks)

	1970	1971	1972	1973
Exports	19.2	21.3	23.9	26.2
Imports	20.4	20.9	22.8	27.3
Balance	-1.2	+0.4	+1.1	-1.1

TABLE VII — Growth of Trade 1972-1974

	1972	1973	1974
Exports	+12.2%	9.4%	19.7%
Imports	+9.2%	19.6%	
Value of total trade in $ mia	12.1	15.4	18.4

TABLE VIII — NATO countries credits to the GDR(2)

(in US $ million)(3)

Year	New credits	Credits (of which over 5 years)	Repayments	Credits outstanding	(of which over 5 years)	Exports to NATO countries	Debt service ratio %
1970	117.9(1)	19.2	36.3	407.8	28.6	720	5.0
1971	190.7(1)	132.1	107.1	491.6	175.6	869	12.3
1972	60.1(1)	1.8	104.6	449.7	156.2	990	10.6
1973	118.5(1)	4.2	155.2	517.6	171.9	1295.2	11.9

SOURCE: NATO countries reporting

(1) Inter-German credits are included
(2) The GDR has reportedly also borrowed $100 million in Eurocurrency loans in 1974 and $100 million so far in 1975
(3) In 1973 in current dollars; for previous years in dollars at the previous parity in accordance with December, 1971 agreements

TABLE IX

Pattern of Trade - 1973

(mia marks)

	Exports	Imports
A. Socialist countries	19.2	17.6
(i) COMECON	18.3	17.0
- USSR	9.9	8.6
- Other COMECON	8.4	8.4
(ii) Other Socialist	0.9	0.6
B. Non-Socialist countries	7.2	9.7
(i) Industrial West	6.0	8.9
- Federal Republic of Germany and West Berlin	2.5	2.4
- Other Western countries	3.5	6.5
(ii) Developing countries	1.0	0.8
TOTAL	26.2	27.3

PART II - HUNGARY

I. SUMMARY

38. The Hungarian economy in 1974 again moved from strength to strength. According to official statistics, national income rose by 7% in one year and industrial production by 8.1%. Having little or no raw materials or sources of domestic energy, however, and trading extensively with non-Communist countries, Hungary felt the impact of world inflation more keenly than the other COMECON countries. Thus, the trade deficit in convertible currencies last year totalled some $600 million. In the early months of 1975, the situation took a definite turn for the worse following the sharp increase in the price of the oil and raw materials imported from the Soviet Union which is Hungary's most important trading partner. The deterioration in the terms of trade, which slipped by about 10% in 1974, has consequently gathered pace this year.

39. The short and medium-term outlook is unpromising. It seems likely that national income will only grow slowly leaving little scope for improvements in the standard of living. This is because the increase in available resources will have to be channelled first and foremost into the restructuring of industry (in other words investment) and into exports (to offset the deterioration in the terms of trade). Furthermore, in order to acquire oil, natural gas and raw materials at below world market prices from the USSR, Hungary will have to contribute, inter alia, and within the framework of the plan for the economic integration of the COMECON countries, to the development of Siberia, and this will leave less for domestic use.

40. The development problems facing Hungary are much the same as those being encountered by the other European countries in the West as in the East. Nonetheless, in Hungary, which is trying out a novel development model - half-way between an administrative economy and a market economy - there are also political considerations. The present crises situation is favouring certain attempts to clothe the Hungarian society in a more Socialist garb and to draw the country, which was showing signs of wanting to break away, back into the Soviet orbit.

II. THE EFFECTIVE BUT FRAGILE NEW ECONOMIC MECHANISM (NEM)

41. The 1968 economic reform which brought in the new mechanism for the regulation of the national economy (NEM) has greatly increased the decision-making powers of the

enterprises with the result that production is geared more closely to requirements and to the market situation. The State, however, within the context of central planning, retains the power to regulate the environment through its policies for currency, the control of foreign trade, budget credits, incomes and prices.

42. Moreover, the Five-Year Plan which will be completed this year was designed to keep up a high level of economic growth, to increase real per capita income by 26%, to continue the restructuring of the economy through an ambitious investment programme, and to build up foreign trade with the Socialist and non-Socialist countries. The balancing of external receipts and payments and of public finances and the stability of domestic prices also formed part of the programme.

43. Generally speaking, these aims have been achieved and even surpassed. Over the past seven years the NEM has proved its effectiveness mainly in the following areas.

(a) Very satisfactory general growth

44. Of the three East European countries considered in the present paper, it is in Hungary that the net material product has grown the fastest. In 1974, the rate of growth was still on a par with that of previous years, in contrast with the situation in certain COMECON countries, the USSR in particular (cf Tables II and III), where the rate was falling.

45. According to a United States estimate, the GNP is $21.3 milliard giving a per capita figure of $2,100. This means that Hungary is just behind East Germany and Czechoslovakia and ahead of Poland, Romania and Bulgaria.

46. In most industrial sectors, the Plan targets have been exceeded. Progress in 1974 was particularly good in the mechanical engineering industry (11.8%), the chemical industry (9.4%), metallurgy (9.4%) and electricity production (8.2%).

47. Agricultural output has likewise grown faster than expected although results are uneven: good in the case of wheat (4.96 million tons as against 4.5 million tons in 1973), maize (6.2 as against 5.9) and meat; but disappointing in the case of wine (4 million hectolitres as compared with 6.2), sugar, fruit and vegetables. The suspension of meat exports to the EEC in May, 1974 has forced Hungary to dispose of its production in the USSR on terms which are far less favourable than those it obtained in the West.

(b) Improvements in factor allocation

48. The application of the NEM has led to substantial increases in productivity in the main Hungarian economic sectors.

49. Labour productivity in industry was rising by less than 4% per annum before 1968. After that, the rate rose to an average of 6% and is believed to have touched 7.2% in 1974 (Table II).

50. In agriculture increased mechanisation, the use of fertiliser and also the flexible application of production factors in the co-operatives have all contributed to substantially higher yields (in the case of wheat, 37.5 quintals per hectare as compared with 32).

51. If account is taken of the low reserves of existing manpower (population growth practically nil, limited movement of agricultural manpower into industry), continuing economic growth and improvements in the standard of living will depend entirely on the possibility of increasing productivity still further.

(c) Increase in the purchasing power of the forint on domestic and foreign markets

52. The purely artificial exchange rate currently applied by the Hungarian National Bank vis-à-vis Hungarian enterprises is $1= 40 forints. From 1st January, 1976, this rate will be reduced by 8%, when the rate will be stabilised at $1=38.6 forints. The Hungarians are well aware that this revaluation of their currency will have an adverse effect on their exports: in view of their current trade deficit, the authorities are studying ways to offset the impact.

53. The true purchasing power of the domestic forint can be put at $1= 28 forints. (It is worth noting that the rate for foreign tourists is only $1= 20.43 forints.)

(d) Parallel development of national income and private consumption

54. Higher production and greater purchasing power have been matched by an increase in private consumption. The latter has without a doubt been both the cause and the consequence of higher productivity. Thus, in 1974, household consumption seems to have risen by 6.9% as compared with the 7% increase in gross national income (see Table V).

55. This being said, in the troubled economic circumstances of last year, the new economic mechanism also showed signs of fragility. The domestic difficulties experienced were the direct consequence of a system which has partly restored the superiority of domestic cash flows over the real flows, broken down the air lock between internal and external prices and re-introduced a system of social advancement based on the maximisation of earnings.

56. Difficulties have been particularly obvious in three areas, viz:

(a) Investment flows

As in the case for consumption the pattern of which is no longer entirely subordinated to central planning, income earned by the enterprises has regained its influence on the volume and structure of investment. This has led to sharp tension in the capital goods sector. Given the limited domestic capacity for the production of these goods, the situation has generated strong inflationary pressures on the one hand and extreme fluctuations related to the capacity to import foreign equipment on the other hand (Table V).

(b) Balance of trade

The switch in demand from domestic to foreign goods in 1971 produced a large trade deficit that year (over half a milliard dollars) (Table VIII).

In 1974 there was another big deficit. In contrast with the temporary setbacks which had caused the previous imbalances, however, it was the initial impact of the international economics crisis on the Hungarian economy which caused the trouble in this instance and which makes last year's trade gap the most worrying feature of the economic situation. The shortfall in hard currencies topped six hundred million dollars(1). This development is the consequence of the deterioration in the terms of trade (Table IX) (particularly oil, chemicals and capital goods) and to imports rising faster than exports, both in transactions with the

(1) For purposes of converting foreign trade statistics expressed in currency forints, the present conversion rate is 9.15 currency forints to $1 (as compared with 11.74 up to end 1971 and 10.81 in 1972)

rouble zone and in trade with the West. Hungarian industry is having particular difficulty in finding outlets abroad, in sellers' markets, for the type of goods which it produces and which, in terms of quality, only partly meets demand.

(c) Inflation and the growth of social inequality

The rise in foreign prices, the lengthy periods required to implement investment programmes and the accumulation of unsold stocks(1) by producers and traders have produced economic stresses which are a cause for concern. Simultaneously blatant signs have appeared of social inequalities. People in the higher income brackets have no means of acquiring financial assets and are restricted to the purchase of capital goods such as real estate. This being so, they go in for showy consumer goods.

III. OUTLOOK: LOOMING STAGFLATION AND THE FUTURE OF THE NEM

A. Challenges

57. Halfway through 1975, the Hungarian economy appears to be faced with a number of major challenges:

(a) the trade gap with the West and the deterioration in the terms of trade within COMECON will force the country to damp down growth, probably until the end of the decade. This seems all the more likely in view of the fact that the Hungarian Authorities are showing particular concern over two aspects of the problem, namely:

(i) the need to reduce supplies from abroad and thus to cut out non-essential imports (a number of investment projects have already been deferred);

(ii) the need to preserve Hungary's financial reputation in international circles (it is at present

(1) It seems particularly difficult to quantify this development since official statistics lump together under "variation in stock levels": goods in the process of production, unsold goods in the production and distribution enterprises, seasonal stocks of agriculture produce, variations in currency reserves and the value of military equipment produced. The "value of stocks" according to this definition appears to have risen from 1 to 5% of the NMP between 1973 and 1974

believed that Hungary's external debt in hard currencies is between 1.5 and 2 milliard dollars);

(b) there will be continuing inflationary pressures which will in fact grow even greater by early 1976 when the prices of oil and commodities imported from the Soviet Union will have worked their way through to all levels. (An overall increase in prices of an average of not less than 8% is expected this year. It is hoped to keep this increase down to 4% in the case of consumer goods but it will be distinctly higher in the case of capital goods and plant);

(c) in addition, the policy of holding down prices implies the payment of large subsidies from public funds which, apart from their prohibitive cost, create serious distortions (artificial support for production which is not economically justified, protection from foreign markets), themselves a source of subsequent inflation. In this connection the Hungarian press has reported a 900% increase in export subsidies for 1974.

B. Probable solutions

58. World inflation - which has now hit Hungary, a relatively outward-looking economy - and the increase in the price of Soviet exports - the effects of which are having a far earlier effect than anticipated on the Five-Year Plan - are among the serious threats to the Hungarian economy. Neither the authorities nor, apparently, large sectors of the population are prepared to pay for vitality and growth if the price is a substantial increase in the cost of living, greater social inequality or a prolonged trade deficit which would threaten national independence. Consumer rationing with practically steady prices and under-investment with foreign trade in balance seem to be the more likely targets for the next, 1976-1980, plan.

59.. The Hungarian Authorities could, moreover, for the duration of the international economic crises, adopt measures which would be tantamount to the temporary suspension of the rules introduced by the NEM. Nonetheless, while battling with present difficulties, they will not lose sight of long-term targets and, in order to safeguard the future, will refrain from abandoning the NEM formula which has given ample proof of its effectiveness(1). They will moreover bear in mind that the prestige of the régime has been associated with the success of the NEM and that the formal and definite jettisoning of this mechanism would, because of the significance which would inevitably be attached to it in the West, have extremely adverse effects.

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(1) Confirmation of these trends has been provided in an article published in May 1975(*) by Mr. G. Lazar who has since become the Head of the Hungarian Government. In something akin to a programme declaration, he contends that the current difficulties should be dealt with by applying the mechanisms of a planned economy and by boosting economic development:

- through quicker modernization of the means of production, particularly of the goods which sell best on foreign markets;
- by placing Hungary in the international division of labour and Socialist integration;
- by increasing productivity, particularly in industry and in building;
- by savings in raw materials and energy;
- by speeding up investments which take two and a half times longer than they should;
- by cutting the subsidies designed to protect consumer prices.

These aims must be brought to fruition by means of constant government control over the enterprises and by the simultaneous strengthening of the initiative and sense of responsibility of the leaders.

(*) "Tarsadalmi Szemle" - Our economic situation and tasks.

HUNGARY

(Basic statistical data(1))

TABLE I

Area: 93,000 sq.km
Population: 10.4 million (Budapest: 2 million) including a working population of: 5.1 million

- distributed between:

(State sector	70%
(co-operative sector	25%
(private sector	5%

TABLE II

	1966-70	71	72	73	74	71-75 (Plan forecasts)
		% growth				
Net material product	6.8	6.5	5.1	7.3	7.0	5.5-6.0
Industrial production	6.3	6.8	5.2	7.0	8.1	5.9
Agricultural production	2.8	9.2	2.7	6.7	3.7	2.8-3.0
Industrial productivity	3.8	7.0	6.0	5.6	7.2	4.3

TABLE III

TRENDS IN THE NET MATERIAL PRODUCT

(Average yearly growth rate)

	1966-70	1971	1972	1973	1974	1971-75 (Plan Forecasts)
Bulgaria	8.7	7.0	8.0	8.7	7.5	8.0-8.5
Czechoslovakia	6.8	5.1	6.0	5.3	5.5	5.1
GDR	5.2	4.4	5.7	5.5	6.3	4.9
Poland	6.0	8.1	10.2	11.6	10.0	7.0
Rumania	7.7	13.1	10.4	10.5	12.5	11.0-12.0
Hungary	6.8	6.5	5.1	7.3	7.0	5.5-6.0
East Europe	6.5	7.2	7.8	8.3	8.2	6.8
USSR	7.8	5.6	3.9	9.0	5.0	6.8
European COMECON countries	7.4	6.1	5.1	8.8	5.9	6.8

(1) Sources: Hungarian Central Statistical Office
COMECON Handbook

TABLE IV

	Contribution of economic sectors to the domestic product (1973)	Manpower employed by economic sector (1974)
Industry	39	35.8
Agriculture	20	23.3
Commerce	11	8.7
Construction	8	8.2
Transport	7	7.6
Miscellaneous	15	16.4
	100	100.0

TABLE V

BREAKDOWN OF DOMESTIC PRODUCT

	(in milliards of forints)					
	1969	1970	1971	1972	1973	1974(1)
Consumption	206	223	237	244	256	272
Private investment	78	93	99	103	107	112
Variation in stock levels	9	7	23	3	1	40
Surplus of exports/imports	7	-9	-24	+3	+15	-20
Domestic product	300	314	335	353	379	404
(yearly percentage growth rate)						
- of domestic product	+8.0	+5.0	+6.5	+5.1	+7.3	+7.0
- of household consumption	+6.0	+8.0	+6.0	+4.0	+5.0	+6.9
- of investments	+8.0	+14.0	+21.0	-15.0	+1.8	+4.5

(1) Estimates

TABLE VI

PRODUCTION INDICES BY INDUSTRY

	1971	1972 (1960 = 100)	1973	1974 first half-year (first half-year 1973 = 100)
Overall	213	224	239	108
Mechanical engineering	248	260	276	109
Chemistry	373	414	457	107
Metallurgy	181	184	199	107
Mining	160	153	163	109
Textiles	152	161	176	105
Food	192	202	209	107

TABLE VII

SOURCES OF ENERGY: PRODUCTION AND IMPORTS

Coal (millions of tons)				
production	27.4	25.8	26.8	13.1
imports	1.9	1.7	1.5	0.7
Crude oil (millions of tons)				
production	2.0	2.0	2.0	1.0
imports	4.9	6.1	6.6	3.2
Natural gas (milliards of cu.m)				
production	3.7	4.1	4.8	2.6
imports	0.2	0.2	0.2	0.1
Electricity (milliards of KW/H)				
production	15.0	16.3	17.6	9.2

TABLE VIII

FOREIGN TRADE
(in milliards of currency forints)

	1970	1971	1972	1973	1974	% Increase 74/75
Exports	27.2	29.4	35.6	42.0	46.9	+12 %
- to the Socialist countries	17.8	20.5	24.8	28.6	31.5	+ 9.8%
- to the non-Socialist countries	9.4	8.9	10.7	13.4	15.4	+15.5%
Imports	29.4	35.1	34.1	37.3	51.0	+36 %
- from the Socialist countries	19.0	23.4	22.4	23.5	29.1	+24 %
- from the non-Socialist countries	10.4	11.7	11.6	13.8	21.9	+58.6%
Balance	-2.2	-5.7	+1.5	+4.7	-4.1	
- with the Socialist countries	-1.2	-2.9	+2.4	+5.1	+2.4	
- with the non-Socialist countries	-1.0	-2.8	-0.9	-0.4	-6.5	

TABLE IX

INDICES OF UNIT PRICES
(1971 = 100)

	1972	1973	1974 first half-year
Exports			
in roubles	100.6	100.5	100.6
in other currencies	103.6	113.6	124.4
Imports			
in roubles	102.2	100.2	100.6
in other currencies	102.2	116.5	142.8
Terms of trade(1)			
in roubles	98.4	100.3	100
in other currencies	101.4	97.5	87.1

(1) $\frac{\text{Export prices}}{\text{Import prices}}$

TABLE X NATO countries credits to Hungary(1)

(in US $ million)(2)

Year	New credits	Credits (of which over 5 years)	Repayments	Credits outstanding	(of which over 5 years)	Exports to NATO countries	Debt service ratio %
1970	70.1	27	16.2	158.9	67.5	358.8	4.5
1971	31.4	20.6	28.2	162.1	105.2	399	7.1
1972	9.0	4.9	26.3	146.5	99.7	552	4.8
1973	24.3	2.1	23.4	151.5	95.5	726.2	3.2

SOURCE: NATO countries reporting

(1) Hungary has reportedly also borrowed $190 million in Eurocurrency loans in 1974 and $100 million so far in 1975
(2) In 1973 in current dollars; for previous years in dollars at the previous parity in accordance with December, 1971 agreements

PART III - THE CZECHOSLOVAK ECONOMY 1974

A. SUMMARY

60. Despite increasing problems in meeting Plan targets in certain sectors, the highly industrialised Czechoslovak economy reflected a generally satisfactory performance during 1974. The primary aggregate measure of economic growth, national income, rose by 5.5% over the previous year: its two major components, industrial and agricultural production, rose by 6.2% and 3% respectively. Czechoslovakia enjoys after the GDR the highest living standards in COMECON.

61. The economy continues to suffer from a serious labour shortage in a number of key sectors while manpower is poorly utilized in others. Although the rise in labour productivity in 1974 was slightly above the overall Plan average - 5.4% against 5.3% - the country has again failed to overcome the problem of low labour morale and general manpower apathy.

62. The share of resources absorbed by investment programmes has been higher than intended; indeed, it is anticipated that over the current Plan period, about one third of the national income produced will be soaked up by investment projects especially in the critical fuel and power industries. However, there have been serious failures and delays in completing large, important construction projects.

63. The rise in monetary incomes appears to have been keeping pace with the overall rate of economic growth. Retail prices have been kept fairly stable and the Party is committed to continue this until the end of 1975. However, consumer dissatisfaction in 1974 was again reflected in the higher rate of personal savings (+64% over 1970) which now stands at around four months' basic wages for an industrial worker.

64. In the foreign trade sector, exports increased by over 20% (including nearly +34% to non-socialist industrialised and developing countries), whereas imports grew by almost 26% (+35% from non-socialist countries); consequently Czechoslovakia had an overall deficit both with the COMECON area and the non-Communist world at the end of 1974. As the country has no sizeable hard currency reserves on which to draw, and as its deficits with the convertible currency area have increased substantially during the last eighteen months, the Czechoslovak leadership may have to modify its hitherto restrictive policy on borrowing from the West.

65. Faced with the increasing cost of energy, in particular, the higher oil and other raw materials prices imposed by the USSR from January 1975, the Czechoslovak economy will probably have to readjust its targets in this final year of the fifth Five Year Plan (1971-1975) and the planned growth rate for 1975 of 5.6% could well be reduced considerably.

66. Other major obstacles to improved performance in 1975 include: ageing of technological base with little hard currency to import equipment from the West; a declining raw materials situation; increasingly disorganised transport system; apathy amongst management at higher level and slow-down in turnover of stocks. These problems have long been known to Czech planners, but it is becoming more urgent to resolve them in view of an increasingly vocal and disenchanted consumer and of long-term trade and production commitments, especially with other COMECON members.

67. The prospects for economic reforms in Czechoslovakia appear remote, and a scheduled reform of internal prices, although increasingly necessary, is likely to prove difficult because of the generally cautious attitude of the leadership and the inhibiting influence of the Soviet Union.

B. OVERALL ECONOMIC GROWTH

68. Compared with other COMECON countries, many of which had considerably higher growth rates, Czechoslovakia's 5.5% increase in net material product (national income) in 1974 was perhaps below average, although on a per capita basis, it probably ranked second to the GDR among the East European countries(1).

69. Official Czech sources claim the same annual average growth rate of national income of 5.5% in the period 1971-1974 (Plan: +5.1%). Although the aggregate growth in the current five year period will probably be some 2%-3% above the original target, it is still likely to be a little below that of the GDR and the slowest among the East European COMECON members.

70. There may have to be some downturn in the original growth target set for 1975 of 5.6% due to the price changes announced in January this year by Moscow for raw materials and especially crude oil, for which Czechoslovakia depends over 90% on the USSR.

(1) Even among the COMECON countries, the concept of national income is not uniform. The USSR and Czechoslovakia, for example, differ from the rest by excluding passenger transport and communications that do not serve material production. The others have added these services to their national income at various times.

C. INDUSTRY

71. Industry provides just over 60% of Czechoslovakia's national income and employs rather less than 40% of the labour force. Consumer goods production accounts for about 37% of total industrial output and in 1971-1974 it has been increasing almost as rapidly as the output of industry as a whole. The 1971-1975 plan required an increase of 34%-36% in industrial production and the increase in the five years is now expected to be about 36%. The fastest growing branches are chemicals and engineering, while production of glass and ceramics, a traditional field of Czechoslovakian expertise, has also increased at a slightly more rapid rate than total industrial output.

72. In 1974 there was a quantitative increase in industrial output of 6.2% with a 6.4% upturn projected for 1975. The highest growth sectors were engineering (+8.5%), building materials (+8.2%), non-ferrous metallurgy (+7.7%) and timber processing (+7.6%). First priority for the current year will be given to consumer durables, especially automobiles.

73. Serious problems arose, however, in several sectors during 1974, particularly the power generation, construction and chemical industries: several expansion projects were delayed by breakdowns in the petrochemical industry and severe construction lags resulted in a drop in planned electricity generating capacity - only 1,895 Mw out of a Five Year Plan target of 3,700 Mw were brought on stream by the end of 1974.

74. Although Czechoslovakia's industry is one of the most advanced among the COMECON countries, it suffers from a number of weaknesses that have long been recognised. These include failures in management efficiency, ageing plant and the low quality of many Czechoslovak goods; this has already led to discounted prices for Czechoslovak goods in the West and is a worry for the leadership, concerned with the foreign trade aspects of the problem.

75. For 1975, the petrochemical industry is to grow by some 9.8% with the engineering and building materials industries also targeted for rapid growth, and with particular efforts by the authorities to remove or reduce bottlenecks in the construction sector.

D. AGRICULTURE

76. A constant improvement in living standards, by increasing the availability of livestock products, fresh fruit and vegetables is an important part of the Czechoslovakian government's policy for agriculture. Between 1971 and 1974

the annual average increase in agricultural production was 3.8%, against a planned rise of 2.7%, although progress was not universal throughout the agricultural sector. By 1973 Czechoslovakia had achieved self-sufficiency in the production of milk, butter and eggs and was virtually self-sufficient in meat production /over 95%/(1). Meat imports were mainly to add variety to the diet, rather than supplement home production. The expansion of the livestock sector was made possible by an improvement of the fodder base and, in particular, greater availability of grain.

77. In 1974, the basic cereal crop target was exceeded due both to good weather and higher yields per hectar. In 1975, gross agricultural output is planned to increase by 3.3% slightly over the 1974 growth rate. While the ultimate aim of the authorities is self-sufficiency in grain production, a feasible goal within the next five years or so, some 1½ millions must be imported at present, of which more than 1 million tons come from the USSR.

78. The farm labour force which numbers around 1 million, has a high average age. Incentives of better housing, improved pension schemes and social benefits are being introduced to encourage younger people to take up farming as a career.

E. CAPITAL INVESTMENT AND LABOUR INPUTS

79. The Plan required that the share of national income devoted to investment should be stabilised at 29%-31%. This level is being exceeded and it is likely that over the current five year period around one third of the national income produced will be absorbed by investment programmes. However, there is an upward spiral of uncompleted capital construction (approximately one third of all enterprises failed to meet norms in 1974; **consequently, there is a call for a reduction** in the volume of new industrial construction projects during 1975).

80. The Czechoslovak Authorities have expressed particular concern about poor investment performance in a number of sectors

whose output was expected to relieve dependence on imports which are becoming increasingly expensive and less obtainable. Poor planning, lack of materials and equipment, and passivity by workers and management alike are frequently quoted in the official press as the basic causes for the weaknesses in the capital construction sector.

(1) Czechoslovakia's per capita consumption of meat at 78.5 kg a year is the highest among the countries of the Warsaw Pact and one of the highest in Europe.

81. Finally, it should be recalled that owing to the decision adopted at the beginning of the 1950s to concentrate on heavy industrial development and concurrently to expand the country's industrial base, Czechoslovakia today produces a disproportionately wide range of heavy industrial goods: this situation places a very substantial burden on available resources for new capital construction and updating of existing equipment and plant.

F. THE CONSUMER

82. In the period 1971-1974 the total monetary incomes of the population increased by about 5.5% annually on average, while the Plan had anticipated an approximate upturn of 5% per year. The total increase in 1971-1975 is now expected to be around 30%, i.e. some 2% over the aggregate Plan target.

83. In recent years high growth rates have been operative for retail turnover - a salient consumer satisfaction plan indicator - which increased some 7.5% in 1974 and is to expand by around 4.5% in 1975. Since 1971, the official retail price index has remained steady with an official commitment to maintain current consumer price levels until the end of 1975 in spite of increasing subsidies which are now estimated to exceed 30% of the Federal budget.

84. With average wages increasing, the consumer has seen his purchasing power increase: however, there has been no appreciable boost in consumer spending, rather a higher rate of personal savings: in 1974 personal savings were some 64% above the 1970 level. This pent-up purchasing power tends to reflect dissatisfaction with the selection and quality of available goods on the market, although the problem does not appear as acute in Czechoslovakia as in the USSR or most other East European countries.

85. Nevertheless, most of the targets for improving the levels of consumption have been consistently over-fulfilled and Czechoslovakia like the GDR enjoys relatively high living standards. For example, in this nation of 14.7 million persons there already exist one million motor cars.

G. FOREIGN TRADE

(i) West

86. Czechoslovakia, a highly industrialised country is especially dependent on foreign trade since a high proportion of its fuel and raw materials must be imported. Additionally Western markets are vital for the country if its manufactured goods are to achieve and maintain up to date technological standards.

87. In 1974 spiralling world prices added substantially to the cost of the import bill and the hard currency deficit was one of the largest the country has suffered in recent years (over $300 million).

88. Any attempts to boost exports to the West in 1975 may be frustrated by Western recessionary trends; the Czech export drive is made more difficult by the fact that the country is saddled with aging plant and equipment. Moreover, some of the current hard currency earning exports will almost certainly have to be diverted to the Soviet market to pay for raw materials. The problem, therefore, is how will Czechoslovakia pay for the Western equipment it needs so urgently as well as for the above-quota shipments from the USSR for which Moscow insists payment be made in convertible currency.

89. Among all COMECON countries, Czechoslovakia has made least use of foreign credits in financing its foreign trade and internal development. Indeed, until 1973, except for a small deficit, Czechoslovakia was one of the few East European countries to keep its trade with the hard currency area in balance. Czechoslovakia still appears to resist most offers of credit and its credit lines with the Western countries are often under-utilized. Nevertheless Prague has lately started to take an interest in credit facilities in the West.

90. While its Euro-currency borrowings remain low, it seems probable that Czechoslovakia may well have to contract loans initially through the COMECON International Investment Bank in Moscow to cope with its rising indebtedness towards the USSR over the next five years. Of course much will depend over the next Plan period on the extent to which Czechoslovakia's terms of trade are modified as a result of pressures within COMECON.

(ii) USSR AND COMECON

91. Until this year Czechoslovakia, along with the other East European members of CMEA, had been relatively shielded from the effects of Western inflation by pricing arrangements that ensured that CMEA prices for all commodities including raw materials and oil remained stable. These prices had been set at the beginning of the present Five-Year Plan, based on world prices of an earlier period, and so were very out of line with current world prices, especially since the last quarter of 1973. In January this year the CMEA Executive Committee agreed to implement the Soviet Union's decision to raise prices. These rises, which took effect retroactively from the beginning of this year, have altered the situation.

92. Although reporting on this subject has been sketchy, and in some CMEA countries non-existent, it appears there is to be an annual revision of prices based on a moving average of world prices of the preceding five years (although 1975 prices are being based on a three-year average 1972-1974). For Czechoslovakia these changes signify a 175% increase in the cost of crude oil from the USSR compared to 1973.

93. Recent articles have indicated that Czechoslovakia has also had some difficulty in obtaining sufficient supplies of crude oil and the situation is further complicated by announcements that Soviet oil deliveries may have to be paid for in hard currency or goods imported from the West if they exceed an existing quota based on contracts now in operation. Czechoslovakia will probably not be affected this year, but is likely to be in the 1976-1980 period. Although the revision of CMEA prices applies (or will apply) to all commodities, the relative trading position of Czechoslovakia, as an exporter of machinery, will deteriorate vis-à-vis the raw material exporters such as the Soviet Union and Poland.

94. On the whole, because of Soviet insistence on COMECON-wide participation in a number of raw material development projects within the USSR, Czechoslovak trade ties to the Eastern bloc and especially to the USSR are likely to be substantially strengthened over the next Plan period (1976-1980), in view of the country's main dependence on the Soviet Union for raw materials.

H. CONCLUSIONS

(i) Prospects for 1975

95. By 1971 the Czechoslovak economy had regained stability after the disturbances of 1967-1969. The rate of economic growth has been steady and slightly in excess of the 1971-1975 Plan, although it remains the lowest among the European COMECON members.

96. Outside the critical foreign trade sector, consumer levels are rising, industrial output is on the increase and agricultural production is meeting its targets. The 1975 Plan retains the basic goals of the overall Plan blueprint. These include raising living standards through increased supplies of more quality goods and closer attention to shifts in consumer demand, a slowdown in extensive growth in capital equipment and strict economy in the consumption of raw materials.

97. But the government concedes that in 1975, the final year of the Five-Year Plan, the Czechoslovak economy faces the adverse factors mentioned above which may decelerate its average but respectable growth rate of recent years and make difficult the upholding of the stability of prices which the Party had previously announced.

(ii) Structural problems

98. Because of the generally cautious attitude of the Czechoslovak leadership, and the inhibiting influence of the Soviet Union, the prospects for any major economic changes seem remote. The sector in which gradual modification was in progress was foreign trade where enterprises producing goods for export appear to have gained more autonomy, with some fifty of them engaging directly in foreign trade transactions in 1972. However, with the difficulties created by the rise in world prices from 1973 onward this trend has been reversed and central control tightened.

99. Towards the end of 1974 there was also evidence of a debate on economic policy among the leadership in which advocates of reform, including the Slovak Deputy Prime Minister Durkovic, argued the need for greater delegation of responsibility to middle-level management, in order to secure improvements in production quality and lowering of production costs. These arguments appear to have been ineffective.

100. A major outstanding question is the feasibility of an internal price reform, which has long been scheduled for implementation at the beginning of 1976. The need for this is presumably becoming more and more urgent, since the rise in costs of materials imported from the West already necessitated a large budgetary subsidy in 1974. However there will certainly be major problems in effecting a price revision which takes due account of these rapid changes, and also the further rises in COMECON prices which are scheduled to take place each year from 1975 onwards.

101. These structural problems are probably among many concerns of the Czech leaders. It is highly probable that some reform will be introduced within the economic system during the 6th Plan period (1976-1980) but it is still too early to predict what will be its extent and, if in the area of external trade, whether it will be part of general reforms within COMECON.

BASIC STATISTICAL DATA

I. GEOGRAPHIC/DEMOGRAPHIC

Area 127,876 sq.km

including 78,862 sq.km in the Czech Republic and 49,014 sq.km in the Slovak Republic.

Agricultural land accounts for 55 per cent of total area, including 56 per cent in the Czech Republic and 53 per cent in the Slovak Republic.

Density of Population 115 per sq.km (December 1974),

including 127 per sq.km in the Czech Republic and 96 per sq.km in the Slovak Republic.

Table I Population Breakdown

	1970	1971	1972	1973	1974
Total (millions, end year)	14.3	14.4	14.5	14.6	14.7
of which					
in Czech lands	9.8	9.8	9.9	10.0	10.0
in Slovakia	4.5	4.6	4.6	4.7	4.7
Percentage of urban population	62.3	62.5	63.0	64.0	
Population of working age (men aged 15-59 years, women 15-54 years)	8.2	8.2	8.3	8.4	
Birth rate (per 1,000 of population)	15.9	16.5	17.3	18.8	19.8*
Death rate (per 1,000 of population)	11.5	11.5	11.1	11.5	11.4

*In 1974 there were 292,000 live births, the second highest number in the post-war period (next after 1947).

II. MAIN ECONOMIC INDICATORS

Table II. Annual Percentage Growth

	1966-70 annual average	1971	1972	1973	1974 provisional	1975 Plan	1971-75 Plan annual average
National income (produced)	6.8(1)	5.1	6.0	5.3	5.5	5.6	5.1

(1) Growth rates are reported as follows:
1966 - 9.1
1967 - 5.3
1968 - 7.2
1969 - 7.3
1970 - 5.5

	1966-70 annual average	1971	1972	1973	1974 pro-visional	1975 Plan	1971-75 Plan annual average
Industrial output	6.8	6.9	6.5	6.4(1)	6.2	6.4	6.0-6.3
Industrial labour productivity	5.7	5.8	5.9	5.6	5.4	n.a.	5.3
Agricultural output	4.8	3.2	3.9	4.7	3.0	5.1	2.7
Gross investment	7.1	5.7	8.7	9.2	8.7*	n.a.	n.a.
Monetary incomes of population	8.2	5.5	6.0	6.4	4.3	4.4	about 5
Retail trade turnover	7.9	5.2	4.9	6.0	7.5	4.4	5.1-5.4

National Income (net material product)

364.5 thousand million Kcs in 1973 in current prices.**

Gross National Product (Western estimate)

43.6 thousand million US dollars in 1974 (at US purchasing power equivalent, 1973 prices).

According to this calculation, Czechoslovakia's GNP is the fourth largest among the Warsaw Pact countries (coming after the USSR, Poland and GDR) and amounts to 4.5 per cent of the total GNP of these countries taken together. On a per capita basis, Czechoslovakia's GNP is the second highest after the GDR.

Table III

III. ECONOMIC GROWTH OF THE WARSAW PACT COUNTRIES (COMECON statistics of percentage growth)

(a) National Income Produced

	1966-70	1971-73
Bulgaria	52	24
Czechoslovakia	39	16
GDR	30	17

(1) As given in the Statistical Report for 1974 (Monthly Statistical Summary, February 1975)

* Excluding the "Z" campaign (for improvement of amenities) and private investment

** 5.8 Kcs - $1 (US)

	1966-70	1971-73
Hungary	39	20
Poland	33	32
Rumania	45	37
USSR	45	19

(b) Per capita National Income Produced

	1966-70	1971-73
Bulgaria	47	23
Czechoslovakia	39	14
GDR	28	17
Hungary	37	18
Poland	30	30
Rumania	37	32
USSR	39	15

Table IV

NATO Countries Credits to Czechoslovakia (1)

(in million US $)

Year	New Credit	(of which over 5 yrs.)	Repayments	Credit Outstanding	(of which over 5 yrs.)	Exports to NATO countries	Debt service ratio (%)
1970	46	5	48	261	115	488	9.9
1971	62	7	64	258	106	567	11.3
1972	115	41	78	292	121	663	11.9
1973	100	34	94	326	141	880	10.7

Source: NATO countries reporting

(1) In 1973 in current dollars; for previous years in dollars at the previous parity in accordance with December, 1971 agreements

Table V

AC/127-WP/439(Revised)

FOREIGN TRADE 1973/4 ($ US millions)

	1973				1974				% Change in Turnover	% Change in Exports	% Change in Imports
	Turnover	Exports	Imports	Balance	Turnover	Exports	Imports	Balance	1974/3	1974/3	1974/3
All countries	12,096.4	6,007.1	6,089.3	- 82.2	14,779.6	7,301.0	7,478.6	-177.6	+22.2	+21.5	+22.8
Communist countries	8,391.2	4,243.9	4,147.3	+ 96.6	9,621.9	4,762.2	4,859.7	- 97.5	+14.7	+12.2	+17.2
of which CMEA	7,882.3	3,972.3	3,910.0	+ 62.3	8,861.2	4,368.4	4,492.9	-124.5	+12.4	+10.0	+14.9
USSR	3,728.7	1,902.7	1,826.0	+ 76.7	4,131.1	2,090.8	3,040.3	+ 50.5	+10.8	+ 9.9	+11.7
Other	508.8	271.6	237.2	+ 34.4	760.7	393.9	366.8	+ 27.1	+49.5	+45.0	+54.6
Non-Communist countries	3,705.3	1,763.3	1,942.0	-178.7	5,157.7	2.538.8	2.618.9	- 80.1	+39.2	+44.0	+34.9
of which											
Developed West	2,855.4	1,310.7	1,544.7	-234.0	3,891.2	1,820.2	2,070.9	-250.7	+36.3	+38.9	+34.1
Developing countries	849.8	452.6	397.3	+ 55.3	1,266.5	718.5	548.0	+170.5	+49.0	+58.7	+37.9
EEC	1,676.0	844.9	833.0	+ 11.9	2,280.6	1,114.8	1,165.8	- 51.0	+36.1	+32.0	+40.2
Multi-Lateral Partners	2,981.4	1,387.4	1,594.0	-206.6	3,778.1	2,031.8	1,746.3	-285.5	+26.7	+46.4	+ 9.6
PERCENTAGE DISTRIBUTION OF CZECH FOREIGN TRADE											
All countries	100.0	100.0	100.0		100.0	100.0	100.0				
Communist countries	69.4	70.6	68.1		65.1	65.2	65.0				
of which CMEA	65.2	66.1	64.2		60.0	59.8	60.1				
USSR	30.8	31.7	30.0		28.0	28.6	27.3				
Other	4.2	4.5	3.9		5.1	5.4	4.9				
Non-Communist countries	30.6	29.4	31.9		34.9	34.8	35.0				
of which											
Developed West	23.6	21.8	25.4		26.3	24.9	27.7				
Developing Countries	7.0	7.5	6.5		8.6	9.8	7.3				
EEC	13.9	14.1	13.7		15.4	15.3	15.6				

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PARTICIPATION IN INTERNATIONAL ECONOMIC ORGANIZATIONS

Czechoslovakia has been reasonably active in the work of organizations to which she belongs. This applies firstly to the United Nations, Czechoslovakia being a founder member in 1945 and also a member of the first Economic and Social Council, UN's principal body for economic issues. Since then she has been a member of this body six times, most recently in 1973-1974, and within this body Czechoslovakia has been a member of the Economic Commission for Europe since 1947 and is active primarily in the following committees:

(a) Committee on Trade Development (problems of East-West trade, arbitration agreement, model sales terms for various types of goods, simplification of trade documents.

(b) Committee on Land Transport (agreement on goods transport on TIR transporters, agreement on containers and road transport).

(c) Agricultural Committee (standardization of perishable food. Farm work mechanisation).

(d) Coal Committee.

(e) Steel Committee.

(f) Energy Committee.

(g) Housing Committee.

(h) Timber Committee.

(i) European Statisticians' Conference.

(j) Water Economy Committee.

Czechoslovakia has observer status at the Economic Commission for Asia and Far East (ECAFE) and the Economic Commission for Latin America (ECLA) and the Economic Commission for Africa (ECA). She has also taken an active rôle in UNCTAD conferences and work as well as on the UN Industrial Development Organization (UNIDO), established in 1966 for promoting industrial development by stimulating mobilisation and efficient exploitation of national and international resources. Czechoslovakia was a founder member of GATT, but over many years took little part in the activity of the organization.