

N A T O R E S T R I C T E D

ORIGINAL: FRENCH
25th April, 1978

WORKING PAPER
AC/127-WP/568

ECONOMIC COMMITTEE

ASSESSMENT OF THE CONVERTIBLE CURRENCY DEBT BURDEN OF
THE COMMUNIST COUNTRIES: METHODOLOGIES

Note by the French Delegation

The purpose of this paper is to describe the methodological difficulties attending any consistent and accurate estimate of the convertible currency debt of the Communist countries, so as to illustrate the basis and also the limitations of the estimates generally put forward. At present the most widely used method of calculating the convertible currency indebtedness of these countries consists in identifying the amounts owed by them to Western economic agents. The different types of credit which have allowed the East European debt to become what it is, and the difficulties to which each one of them gives rise, are therefore described in turn.

2. The growth in the East European convertible currency debt burden over the last few years is attributable mainly to credits of two types: officially-backed credits and bank credits. To obtain a broader picture of the debt burden the following more specific forms of financing must be taken into account:

- supplier credit granted by the exporting firms direct and sometimes negotiated on the à forfait market;
- loans by the IMF and the World Bank to Romania;
- the FRG swing credit to the GDR;
- credits extended by some Arab States.

This document includes: 4 Annexes

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1. OFFICIALLY-BACKED CREDITS

1.1 Conditions

3. The official backing given to these credits differs according to the export credit arrangements existing in the Western countries (1) but its overall effect is to provide better terms and conditions than those obtaining on the market. With certain partners, notably the Soviet Union and Poland, the conclusion of "financial protocols" annexed to the bilateral trade agreements puts this preferential form of financing on an official basis. These protocols lay down the amount of credit usable during the period covered by the agreement, the credit arrangements and the minimum amount required for each of the contracts to be financed in this way. In some cases official backing is given on an ad hoc basis when, for example, a Western bank opens a line of credit either to the national exporter (supplier credit)(*) or the foreign purchaser (buyer credit)(*) for the settlement of a commercial contract.

4. Official backing generally takes the form of guarantees by a public body (or government agency) such as COFACE in France, the ECGD in the United Kingdom, mainly Hermes in the FRG and INA in Italy and sometimes of participation in the funding of credit by official or semi-official banking institutions such as the BFCE in France, the AKA and the KfW in the FRG and Mediocredito Centrale in Italy. This contribution to funding takes place through rediscounting or the payment of interest rate differences (Italy and the United Kingdom). However, in some countries (the United States and Japan, for instance) official bodies such as the Eximbank exist alongside the system just described and can grant direct to foreign importers loans at attractive rates of interest which are generally supplemented by bank loans.

5. The granting of officially-backed credit lines is usually made public so it is possible to ascertain the maximum amount of such credit made available to the Communist countries (see Annex I).

1.2 Methodological problems

6. To calculate the debt to which these lines of credit give rise it is, of course, necessary to know the extent to which the credits extended have actually been drawn. But the information on this score is very fragmentary.

(*) In the case of supplier credit, the exporter himself extends credit to his foreign partner and then obtains credit from his own banker until the payments from the purchaser fall due; buyer credit is granted directly by a bank to the foreign buyer to enable him to pay for his procurements in cash (2)

7. As a first step, the commercial contracts signed and funded under the guaranteed credits extended can be identified. But this can obviously never be conclusive and it is, moreover, only a preliminary operation which reveals the amount of the "firm commitments" of credit from which the payments made have to be estimated. It is well-known that, especially in the case of large contracts for the sale of equipment or turn-key projects, the contract may be performed long after it was signed or involve deliveries staggered over a number of years. But it is precisely the delivery - or successive deliveries - which constitute a drawing on the credits extended and it is the date of delivery which constitutes the date of payment of the credit and the starting point of the repayment schedule.

8. It is also necessary to distinguish between the value of the commercial contract thus financed and the amount of the guaranteed credit extended, which generally comprises:

- 80 to 85% of the amount of the commercial transaction (the rest is paid in cash); in many cases, too, the official guarantee covers only a fraction of the credit(*);
- 100% of the interest due on the credit.

9. To be meaningful, therefore, any calculation of Soviet bloc debts financed by officially-backed credits must comprise several stages:

- identification of the lines of credit extended;
- identification of the commercial contracts signed and financed in this context;
- an estimate of the payments made in execution of commercial contracts;
- the determination of the amount of credit drawings, taking into account the part of the contract which is credit-financed - the cumulative drawings correspond to the outstanding credits and thus to the gross debt burden.

(*) Under the French system, for example, the COFACE guarantee for supplier credit varies from 80 to 85% for commercial risks and is 90% for political risks; in the case of buyer credit it is 90% (2)

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10. This complex procedure makes it very difficult to estimate accurately the amount of the debt created by officially-backed credits.

1.3 Estimates

11. The estimates used are, however, based on the principles described above; there is another type of estimate which makes it possible to avoid a number of difficulties but it is still incomplete and confidential(*).

12. Estimates by the Chase Manhattan Bank for 1975 and 1976 (3) take as their starting point the "firm commitments", i.e. the contracts signed in connection with officially-backed lines of credit. The amount of the credits actually drawn is then calculated and, for the Communist countries as a whole, it corresponds to the generally accepted assumption that drawings amount to between 40 and 50% of commitments (see Table I and Annex II).

13. There is no doubt that this method, whereby the figure for contracts is assumed to be the same as the figure for credits and the drawings are estimated, leaves room for error. It also has what is surely the serious defect of disregarding the interest due on the credit, for with medium- and long-term credits the interest represents an important fraction of the credit.

14. Another series of figures has been produced by an OECD (4) Working Group from radically different premises which correspond more closely to the concept of indebtedness. The figures given for the debt burden come from national export credit guarantee bodies and therefore constitute the officially-backed credits extended (the outstanding debt) and so in theory include the principal (the fraction of the contract covered by the officially-backed credit and actually drawn)

(*) Although certain international organizations such as the EEC, the Berne Union and NATO have devised procedures for the a posteriori notification of credits of more than five years, this does not provide a basis for estimating the debt burden since credits of more than five years account on average for only half the total export credits extended. Unfortunately, the estimates made by NATO, which are based on an enumeration of all officially-backed credits, have not been updated since 1974. There are, however, two drawbacks to these estimates:

- (1) the figures for the Communist countries' debt burden reflect commitments and not the outstanding credits (since they are based on the contracts signed and not on the payments to which the contracts give rise)
- (2) they obviously exclude debts owing to non-member countries of the Alliance, Japan for example

and all the interest, after subtraction of the reimbursements made. Because it includes the interest, this method gives much higher figures for the debt burden. Thus, according to the OECD data, the outstanding officially-backed credits extended to the Soviet Union by the United States, France, the United Kingdom and the Federal Republic of Germany amounted to \$6.9 milliard at end-1975, whereas with the Chase Manhattan Bank method the figure is about \$4.6 milliard. The corresponding figures for the Communist countries as a whole would be \$11.5 and \$6.5 milliard respectively.

15. Unfortunately, the incomplete nature of the OECD figures, and the fact that its work is still confidential, mean that these data can only be used for purposes of comparison. Consequently, it is necessary to use the Chase Manhattan figures, while recognising that they are too conservative.

TABLE I
OFFICIALLY-BACKED CREDITS EXTENDED
TO THE SOVIET UNION AND EAST EUROPEAN COUNTRIES
(in millions of dollars)

	1975		1976	
	Commitments	Drawings	Commitments	Drawings
BULGARIA	717	359	775	425
HUNGARY	241	168	284	90
POLAND	6,032	2,357	8,365	5,380
GDR	1,978	532	2,550	1,100
ROMANIA	1,413	1,130	1,405	500
CZECHOSLOVAKIA	858	448	960	480
USSR	10,093	5,083	10,793	6,586
TOTAL	21,372	10,077	25,130	16,561

Source: Chase Manhattan Bank, see Tables in Annex II

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2. BANK CREDITS

16. Alongside credits which entail refinancing and official backing, are credits granted to the Communist countries by Western banks without any official backing.

2.1 Conditions

17. The procedures for granting these credits differ according to whether they are supplier credits, commodity credits or financial credits.

18. The arrangements for granting supplier credits are similar to those obtaining in the case of officially-backed supplier credits; the exporting firm extends credit to the foreign buyer and obtains credit from its bank. The credit is extended in national currency at a rate which depends on the market rate.

19. Unlike commodity credits, financial credits are not necessarily linked to the execution of a commercial transaction. The borrower may use the credit either to finance his imports in full or in part (for instance as the down payment for a contract financed by officially-backed credits) or for any other financial transaction. These credits may be made available in foreign or national currency.

20. In actual fact, the bulk of the bank credit made available to the Communist countries is in Euro-currency, for which specific machinery exists:

these are generally syndicated loans; their amount and duration have led the banks to form syndicates; one bank acts as the leader and each of the others contributes to the loan in accordance with its resources and the risks it is willing to take;

moreover, although loans on the Euro-currency market are normally made for seven to eight years they take the form of short-term roll-over credits; they are granted for a period of six months only but during the initial negotiations it is agreed to renew them at six-monthly intervals for the period initially agreed on; there is a floating interest rate and during the initial negotiations the interest rate is fixed together with a margin which is added to the basic rate or LIBOR (London Inter-Bank Offer Rate). This margin remains constant throughout the period of the credit but at each of the six-monthly negotiations the interest rate is revised in the light of the LIBOR; the partners may then also change the currency in which the loan was quoted.

2.2 Methods of calculation

21. The yearly and quarterly publications of the Bank for International Settlements (BIS) gives the figures for 1975 of the outstanding bank credits granted to the Communist countries. This was the year in which the BIS surveyed the position of each of the Communist countries vis-à-vis Western banks. For earlier years only data on the Soviet bloc as a whole are available.

22.

(a) But there is a certain amount of vagueness and ambiguity:

- In the first place, some Western banks do not inform the BIS of their position - this is true of Austrian, Finnish and Middle Eastern banks and of branches of non-American banks in Singapore;
- moreover, debts owing to Canadian, American, Japanese and Swiss banks are not given for individual countries and so they have to be broken down;
- lastly, it is known that the Soviet position on the books of banks which send in returns to the BIS includes the position of the two COMECON international banks (IBEC and IIB) - so it is necessary to assess the commitments of these two banks to Western banks in order to calculate the individual position of the Soviet Union.

23.

(b) Another, and more serious, difficulty is that, according to certain experts, the outstanding bank loans listed by the BIS include certain guaranteed financial credits. Obviously, in this case, if bank and government-backed credits are added together they are counted twice and the calculation of the debt is thrown out.

24. Until the BIS confirms or refutes this, the situation will remain completely equivocal. However, it emerged from certain studies that only credits guaranteed by the FRG would be subject to such overlapping because the machinery for extending and recording officially-backed credits in the other countries prevents this type of confusion. Another reason for believing this to be the case

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is that the bulk of the amounts owed to Western banks is made up of Euro-currency and this necessarily excludes officially-backed credits which are almost exclusively in national currency. And the comparatively low figure for debts in national currency corresponds roughly to the figure for West German guaranteed credits (5).

25. However, should there be an increase in credits guaranteed in foreign currency (the United Kingdom has recently backed several dollar credits to Poland and the Soviet Union) the distinction between outstanding officially-backed and bank credits would become still more fine(*).

26.
(c) Lastly, the figures provided by the BIS have the drawback of preventing an accurate distinction between the short- and medium- or long-term. In the annual reports of the BIS, the outstanding bank credit extended to the Communist countries includes short-term debts (over a year), which makes these figures consistent with those for officially-backed credits, which concern only the medium- and long-term. The recent adoption by the BIS of tables which show the breakdown of the debts on the basis of due dates only partly solves the problem; the short-term concept of the BIS includes long-term debts falling due as well as purely short-term loans. But, as frequently pointed out, this latter type of debt may be the result of normal daily or monthly settlements for commercial transactions and is generally not taken into account in the calculation of a country's debt burden (6).

2.5 Estimates of outstanding bank credits extended to the Communist countries

27. In spite of all these reservations on the value of the BIS figures they have to be used since they are the fullest available. The margin for estimating bank credits is fairly limited since it consists in identifying the IBEC and IIB commitments, allocating the commitments which are not broken down by countries and evaluating the debts owing to banks which do not report to the BIS.

(*) The reform of the United Kingdom export credits system, which was introduced end-1977, has resulted in large-scale use of Euro-currency to finance officially-guaranteed credits. In 1977, credits in dollars of 23 million and 16.5 million were extended to the Soviet Union and Poland respectively

28. The position of the two COMECON banks can be deduced by analysing their yearly statements, taking into account certain generally accepted assumptions (mainly that the figure given as liabilities for the two banks under the heading "credits received" consists to the tune of 90% of convertible currency credits) (7). The allocation of bank credits extended by United States, Canadian, Japanese and Swiss banks gives fairly similar results - except for the GDR and the USSR - regardless of whether detailed data on loans by the Communist countries are used (Table II(B)) or whether the credits are broken down among the Communist countries in accordance with the share of each of these countries in the overall East European commitments to Western banks (Table II(A) and (C)).

3. THE OTHER METHODS OF FINANCING

29. Credits extended directly by firms are not published as a matter of course. The Bundesbank (8) monthly bulletin did give figures as of 10th June, 1975 for debts owing to West German firms and it would appear that it is the latter which extend almost all such credits. So far as is known, no official updating has been published since. To the difficulty of ascertaining credits extended by firms must be added that of evaluating credits negotiated on the à forfait market; to simplify their financial management, some firms prefer to sell their debts to specialised financial houses - factoring companies or confirming houses(*). In this way they rid themselves of the administration and recovery of debts against the payment of a lump sum commission plus a premium calculated on the due dates of the debts. These factoring and confirming mechanisms constitute the à forfait market, the rates of which are published regularly (see Annex III).

(*) By factoring or confirming an order placed abroad, the exporter sells his debts definitively and without recourse to a factor or forfaiter. In the first case a subscriber contract, generally yearly, is drawn up between the exporter and the factor; in the second case, the confirming house acts on a case-by-case basis

TABLE II

COMMITMENTS BY THE SOVIET UNION AND
EAST EUROPEAN COUNTRIES TO WESTERN
BANKS (in millions of dollars)

	1975		1976	
	(A)	(B)	(C)	(C)
BULGARIA	1,310	1,932	1,842	2,245
HUNGARY	2,480	2,460	2,526	3,472
POLAND	4,377	4,620	4,445	6,191
GDR	2,912	3,432	3,819	4,067
ROMANIA	995	1,050	1,012	833
CZECHOSLOVAKIA	325	558	331	985
USSR	5,992	-	4,950	6,877

Source: Bank for International Settlements.

- (A) East West Markets, 20th September and 4th October, 1976.
- (B) K. Nelson and T. Snell: "Estimating East European indebtedness". Joint Economic Committee 1977.
- (C) Distribution of the residual amount on the basis of the share of each East European country in the total Eastern commitment to the reporting banks.

30. For the financing of trade between the two Germanies, there exists a clearing agreement with a swing credit authorizing an imbalance of up to DM. 800 million in 1975. No official figures are available on the situation of this account since mid-1974 and so its development has to be estimated.

31. Romanian drawings from the IMF and loans by the World Bank are given in the reports or yearbooks issued by these two bodies.

32. Finally, relations between the Communist countries and the Third World have given rise over the last few years to loans in convertible currency extended by certain oil-producing countries. Information on these credits, which are still fairly rare, has yet to be collated.

4. FROM GROSS INDEBTEDNESS TO NET INDEBTEDNESS

4.1 Development of the gross debt burden

33. Table III shows estimates of the extent to which each of the countries concerned uses the different methods of financing. If the figures relating to the different debts are added together the basis of the gross debt estimates given in Table IV is obtained but, as already pointed out, this entails the risk of omission or of counting some figures twice. There are so many possible errors that it is unfortunately impossible to say whether the figures are over- or under-estimated.

34. But there is another method of calculation with which the approximate accuracy of the figures obtained can be checked. It is, for instance, possible to calculate the gross debt burden of the East European countries and the Soviet Union on the basis of their cumulative balance of payments on current account over a number of years. But the difficulty in this case stems from the fact that these countries do not publish details of their balance of payments (except Hungary) and so it is generally necessary to use the trade balances (see Table V). These provide a reasonable approximation of the balance of payments situations because of the comparative stability of invisible transactions up to the last few years (Table VI); there is no doubt however that the cost of debt servicing over the next few years (as was already the case in 1977) will prevent the balance of trade and the balance of payments from coinciding in future.

35. In these cumulative trade balances it is necessary to take account not only of the trade deficits of these countries vis-à-vis Western countries, but also the balance of trade with those developing countries which have no settlement or clearing agreements with the East European countries and the Soviet Union. It will be seen that the figures obtained with this method of calculation (see Table V) are consistent with those obtained previously (see Table IV).

TABLE III

CREDITS EXTENDED TO EASTERN EUROPE AND THE SOVIET UNION
BY THE WEST (millions of dollars)

	Drawings on officially- backed credits(1)	Bank credits (2)	Other credits	TOTAL billiard \$ (3)
BULGARIA				
1975	309	1,932	405	2.7
1976	365	2,245	417	3.0
HUNGARY				
1975	145	2,450	659	3.3
1976	70	3,472	100	3.6
POLAND				
1975	2,120	4,620	1,048	7.8
1976	4,420	6,191	2,250	12.9
GDR				
1975	1,443	3,432	-	4.9
1976	2,100	4,067	1,500	6.7
ROMANIA				
1975	830	1,050	980	2.9
1976	360	833	1,680	2.9
CZECHOSLOVAKIA				
1975	328	558	950	1.8
1976	360	985	800	2.2
USSR				
1975	3,600	5,992	1,800	11.4
1976	4,700	6,877	3,700	15.3

- (1) Except for the GDR, the officially-guaranteed credits extended by the FRG have been deducted (cf. page 9)
- (2) Estimate (b) from Table II has been used for 1975 and estimate (c) from Table II, the only one available, for 1976
- (3) It will be seen that for Poland, the GDR and the USSR, the total known debts in 1976 are well above the estimated debts given in Table IV

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TABLE IV
FROM GROSS INDEBTEDNESS TO NET INDEBTEDNESS

	Gross debt burden		Assets of Communist banks in Western banks		Net debt burden	
	1975	1975	1975	1975	1975	1975
	(A)	(B)	(A)	(B)	(A)	(B)(*)
BULGARIA	2.4	2.6	0.4	0.34	2.0	2.27
HUNGARY	3.2	3.3	0.9	0.880	2.3	2.40
POLAND	7.8	7.9	0.7	0.770	7.1	7.15
GDR	4.9	5.1	0.7	0.960	4.2	4.17
ROMANIA	2.8	3.0	0.5	0.500	2.3	2.4
CZECHOSLOVAKIA	1.5	2.2	0.3	0.500	1.2	1.71
USSR	11.4	7.5	3.0	-	8.4	-
BANKS	3.3	-	0.2	-	3.1	-
TOTAL	37.3	-	6.7	-	30.7	-
	1976		1976		1976	
	(A)	(C)	(A)	(B)	(A)	(B)
BULGARIA	3.0		0.5		2.5	
HUNGARY	3.4		1.0		2.4	
POLAND	11.0		0.8		10.2	
GDR	5.9		0.8		5.1	
ROMANIA	2.9		0.4		2.5	
CZECHOSLOVAKIA	2.2		0.4		1.8	
USSR	14.1	10.2	3.8		10.3	
BANKS	4.3		0.3		4.0	
TOTAL	46.8		8.0		38.8	

- (A) L. Brainard: "Eastern European Indebtedness" presented at the conference on monetary and financial problems in East and West, Budapest, October 1977
- (B) K. Nelson and E. Snell: "Estimating East European Indebtedness to the West", Joint Economic Committee, Washington 1977
- (C) J. Farrel and P. Ericson: "Soviet trade and payments with the West", Joint Economic Committee, Washington 1976. The figures represent only the medium- and long-term debt
- (*) Gross debt burden minus assets in Western banks and supplier credits to the FRG

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TABLE V

SOVIET AND EAST EUROPEAN CUMULATIVE TRADE
BALANCES IN CONVERTIBLE CURRENCY
(billiards of dollars)

	1961/1970	1960/1975	1960/1975
USSR	3.7	13.3	18.3
Eastern Europe	4.0	18.9	24.2
Total	7.7	32.2	42.5

Source: L. Brainard "Eastern European Indebtedness". Op.cit.

TABLE VI

ESTIMATES OF THE BALANCE OF PAYMENTS SITUATION
OF DEVELOPED MARKET ECONOMY COUNTRIES VIS-A-VIS THE
SOVIET UNION AND EAST EUROPEAN COUNTRIES

	1972	1973	1974	1975	72/75
Balance of trade (fob-fob)	1,662	2,836	3,209	9,286	16,993
Balance of payments on current account	1,465	2,713	3,388	9,661	17,232

Source: Economic Bulletin for Europe - Volume 28, 1976,
Page 97, Economic Commission for Europe, Geneva
(excluding Japan)

4.2 Convertible currency holdings of the Communist countries

36. Only claims on the international monetary system resulting from commercial and financial transactions have been considered as assets deductible from the gross debt burden for the calculation of the net burden. Accordingly, no account has been taken of Soviet reserves of gold and precious metals and stones, the value of which in all likelihood exceeds the Soviet convertible currency debt(*).

37. The currency holdings of the Communist countries are of several types:

- foreign currency reserves in their central banks and treasury reserves;
- claims on banks and other Western economic agents;
- the foreign currency debts of developing countries;
- convertible currency claims arising out of intra-COMECON transactions.

38. Lack of information makes it quite impossible to calculate the exchange reserve holdings of the central banks in the Soviet Union and East European countries; their claims on Western banks and countries are the only type of assets which can reasonably be assessed. Among these claims, those on Western banks are one element which can be evaluated with some degree of accuracy. The BIS publishes statements of commitments by Western banks (with a few exceptions - see Page 8) to the Soviet Union and East European countries. In Table IV use has been made of the estimates of L. Brainard and K. Nelson and E.M. Snell (10)

(*) The estimate of gold reserves concerns mainly the Soviet Union. By using estimates of the annual Soviet output and sale of gold and a generally-accepted figure for initial reserves in 1972 of 1,950 tons, the present Soviet reserves can be put at between 2,200 and 2,800 tons (see Annex IV). At the rate of \$150 an ounce, these reserves could be worth between \$10 and \$13 milliard. It is inconceivable however that these reserves would be used to finance a deficit of an equivalent amount should massive gold sales by the USSR cause the price of gold to fall below \$150 an ounce. Such a development may be ruled out. It is difficult to put a figure on other Soviet precious reserves (platinum and diamonds) but it would seem that sales of these commodities could produce currency earnings on a par with those of gold sales (9)

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which take account of the situations of banks which do not report to the BIS. For commodity credits extended by the Communist countries to Western firms, information is available only on those granted by six countries (excluding the Soviet Union) to West German firms for a total of \$500 million (10).

39. It is not easy to estimate holdings arising out of transactions with developing countries. Assistance in the form of currency loans is known to be very rare but there are examples of East European banks participating in syndicated loans in Euro-currencies to Third World countries(*). What is more, in most cases trade between Communist and developing countries is at present settled essentially in convertible currency. The Soviet Union, for instance, has bilateral clearing agreements with only 17 developing countries. And when Soviet trade with developing countries which have signed no bilateral clearing agreements is scrutinised (from the country-by-country data given in the Soviet foreign trade yearbook) it is seen that the Russians regularly have a trade deficit. Trade with the developing countries paid for in foreign currency must therefore add to the Soviet debt burden. Very close analysis of the Soviet foreign trade statistics shows that the data on country-by-country trade in the Soviet yearbook do not include sales of arms. So the real situation of Soviet transactions with the developing world in foreign exchange remains uncertain and it is quite possible that arms sales bring in net currency earnings (11). This uncertainty surrounding the real trade balances makes it impossible to be more precise over the figure for net indebtedness.

40. Transactions conducted in foreign currency are known to account for 10-15% of all intra-COMECON trade. But as no information is available on the debit or credit standing of the member countries no account can be taken of convertible currency loans and deposits made within the grouping(**). But this does not affect the estimate of East European assets as a whole, only the individual holdings of each country.

41. In some countries, and this is especially true of Poland, private foreign currency deposits have some importance. As a result of measures to encourage such deposits they reached \$141 million in 1976 and to \$216 million in 1977 (13).

(*) In 1975, the Soviet Union participated in Euro-currency loans to Argentina and Turkey

(**) But it would seem that a country like Hungary, especially in 1975 and 1976, had a fairly high credit balance (between \$100 and \$200 million) in its foreign currency settlement of transactions conducted within COMECON

4.3 Net debt burden

42. Because of the lack of precise information on most of the convertible currency holdings of the Communist countries, the usual method for calculating their net indebtedness is to subtract from the gross debt the amounts owed to them by Western banks and any supplier credits they may have granted (see Table IV).

43. The two series of estimates in Table IV give very similar figures for the debt in 1975. In 1976 there is a third estimate for the debt burden of the Communist countries as a whole which is significantly lower than the one shown in the table; the Economic Commission for Europe puts the net debt at between \$32 and \$35 milliard (13). In the absence of details of how this figure was obtained there is no way of knowing what caused the difference but it may have arisen because the foreign currency holdings of the countries concerned have been taken more fully into account.

44. It is hoped that this critical account of available estimates of the convertible currency debt burdens of the Communist countries will pinpoint more clearly those elements of the calculations which remain vague or uncertain. The margin of error revealed in this analysis could raise doubts about the value of these estimates, if the cumulative trade balances were not there to confirm the approximations given. The figures for the debt burden obtained by examining the claims of Western countries and institutions may therefore be taken as approximate estimates.

45. The difficulties of calculating this indebtedness should not lead to intrinsic importance of these figures being exaggerated. The scale of indebtedness can only be judged, among other things, in relation to the circumstances which shaped it; in other words, it has to be seen in the light of the import policies it made possible as well as of the Western public and private banking policies which have permitted and perhaps promoted it.

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- (8) BundesBank Bulletin, Vol. 28, No. 7, July 1976.
- (9) "Problemes Economiques", No. 1400, 11th December, 1974.
- (10) K. Melson, E.M. Snell, op.cit.
- (11) In the Soviet Foreign Trade Yearbook the global figure for trade with the developing countries shows the Soviet Union with a trading surplus. The country-by-country trade figures, on the other hand, show a Soviet deficit for trade with countries having signed bilateral clearing agreements as well as with countries which have not signed such agreements. According to B.L. Kotinsky's "Description and Analysis of Soviet Trade Statistics" (US Department of Commerce) the difference is explained by the fact that the global figure includes arms sales. There is no doubt that some of these arms went to developing countries which pay in convertible currency.
- (12) L. Brainard "The CMEA financial system and integration" op.cit.
- (13) Economic Bulletin for Europe, Vol. 29, No. 1, op.cit.

NATO,
1110 Brussels.

PREFERENTIAL FINANCIAL AGREEMENTS CONCLUDED BETWEEN WESTERN COUNTRIES AND THE USSR AND EAST EUROPEAN COUNTRIES

Country	Amount and Duration	Type of Credit
USSR		
1. <u>France</u> <u>Inter-governmental financial agreement</u> (6.12.74)	12.5 milliard francs 5 years	Financing of French sales of machinery and capital equipment: - 7 years from 20 to 75 million francs (14 equal and consecutive half-yearly payments); - 8½ years for more than 75 million francs (17 equal and consecutive half-yearly payments); - rate of interest: 7.55% for of contracts less than 425 million francs and 7.20% above that amount.
<u>Additional credit of</u>	1.5 milliard francs	For the sale to the Soviet Union of equipment and pipes under the Iranian gas agreement.
<u>Rider to financial protocol</u> (2.9.75)	1975/1979	Financing of sales of gas industry equipment.
<u>Renault financial protocol</u> (21.10.75)	700 million to 1 milliard 200 million francs	To finance the modernization of the Soviet automobile industry (including tractors,
2. <u>United Kingdom</u> <u>Inter-governmental financial agreement</u> (Feb.75)	5 years £1 milliard	To finance sales of British machinery and capital equipment: interest - 7.2% depending - 7.5% on contracts
3. <u>Japan(1)</u> <u>Sachalin credit agreement</u>	\$152.5 million	Exploration of the Sachalin oil and gas deposits - \$100 million (May 75) "Credit for prospecting risks"; - \$22.5 million (July 75): Purchase by USSR of computers and seismic equipment (6.75% over 5 years);

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Country	Amount and Duration	Type of Credit
		- \$30 million: local prospecting costs (7.25% over 5 years)
Mention should also be made of the protocol of agreement of April 1974 between Ekimbank and the Soviet Deputy Minister for Foreign Trade, Mr. Alkhimov, concerning the extension of a credit of \$1,050 million made up as follows:		
<ul style="list-style-type: none"> - \$450 million for the Yakuty coal reserves; - \$500 million for Soviet Far East timber resources; - \$100 million for natural gas prospecting in the Yakutsk region. Interest rate 6.375%.		
4. <u>Italy</u> <u>Governmental</u> <u>Financial agree-</u> <u>ment</u> (September 1975)	1976 \$900 million 1976/1980	To finance sales of Italian capital equipment Single rate: 7.55% (16 equal quarterly payments) Credit on 85% of the amount (down-payment of 15%) Minimum for contracts covered by these credits: \$500,000.
<u>Financial agree-</u> <u>ment</u> (November 1977)	\$650 million \$250 million in 1977 \$200 million in 1978 \$200 million in 1979	To finance procurement of turn-key projects, rate 7.25% for 5 years, 7.55% from 5 to 8 years. Credit for 85% of the contract amounts (down payment of 15%) minimum for contracts \$1 million.
<u>POLAND</u>		
1. <u>France</u> <u>Inter-</u> <u>govern-</u> <u>mental</u> <u>financial</u> <u>agreement</u> (20.6.75)	\$1,550 million 5 years	<ul style="list-style-type: none"> - 7.55% for contracts of less than 25 million francs (duration: 5 yrs.) - 7.75% for contracts of between 25 and 35 million francs with duration of 7 years (15-25 for the food industry); - above 35 million francs with duration 7-8$\frac{1}{2}$ yrs. (over 25 million francs for the food industry)

Country	Amount and Duration	Type of Credit
	<u>Coal agreement</u> \$200 million (January 1975) 5 years	5 years credit for contracts of between 1 and 10 million francs, 7 years for contracts over 10 million francs (light equipment) and 7 years for contracts of over 25 million francs (medium and heavy equipment).
	<u>Intergovernmental Financial agreement</u> 1977 7 million francs 1976/1978	
2. <u>Japan</u> (1975)	\$180 million	To finance sales of equipment for textile, iron and steel and chemical industries: rate 6.50% (financing by the Japanese Eximbank at a rate of 7.50% with 1% bonus by firms).
3. <u>Italy</u> (September 1975)	1975/1979	8 years' credit for contracts of between 0.2 and \$1 million at a rate of 7.75% - 300 million for the purchase of equipment - 200 million for the purchase of semi-finished goods - 150 million for the expansion of the coal industry (repayments in coal).
4. <u>FRG</u> <u>Political-Financial agreement</u> (September 1975)	DM. 1 million	To finance purchases of capital equipment, 20 years, interest rate 2.5%

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Country	Amount and Duration	Type of Credit
<u>ROMANIA</u>		
1. <u>France</u> <u>Inter-governmental</u> <u>financial</u> <u>agreement</u> (1975)	\$11 million	Renewal of the agreement on balance of payments assistance 8 years' credit (7.50%).
2. <u>Japan</u> (1975)	\$120 million	Credits at a rate of 6.50% (financed by Eximbank at a rate of 7.50% with 1% bonus by Japanese firms).
3. <u>Italy</u> 11/end 1976	\$240 million	To finance purchases of capital equipment - interest rate 7.5% in 3 slices of \$80 million, duration: 8 years
<u>BULGARIA</u>		
1. <u>France</u> (1975)	\$27 million	Renewal of the balance of payments assistance agreement.
2. <u>Japan</u> (1975)	\$100 million	Credit at a rate of 6.50% (financed by Eximbank at a rate of 7.50% with 1% bonus by Japanese firms).

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TABLE I
CONVERTIBLE CURRENCY DEBT OF BULGARIA
(in millions of dollars)

	Officially backed credits			
	1975		1976	
STATUS OF COMMITMENTS				
United States	-		-	
Japan	75		155	
Austria	20		25	
United Kingdom	51		52	
France	300		318	
FRG	110		130	
Italy	70		75	
Others	91		95	
TOTAL	717		775	
Drawings	359		425	
	Bank Credit			
	1975		1976	
Banks reporting to the BIS	1,810 _a	1,850 _b	1,842 _c	2,245 _c
Austrian banks		82 _b		
	Other Credit			
	1975		1976	
Supplier credit	100 _a	200 _b	400 _a	
OECD credit		130 _b		
FRG Government credit		75 _b		
International bonds	17 _a		17 _b	

a, b, c, see notes on page 8.

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TABLE II
CONVERTIBLE CURRENCY DEBT OF HUNGARY
(in millions of dollars)

	Officially backed credits	
	1975	1976
STATUS OF COMMITMENTS		
United States	-	-
Japan	1	3
Austria	7	10
United Kingdom	70	85
France	40	51
FRG	50	55
Italy	40	45
Others	33	35
TOTAL	241	284
Drawings	168	90
	Bank Credit	
	1975	1976
Banks reporting to the BIS	2480 _a	3472 _c
Austrian banks	-	-
	Other Credit	
	1975	1976
Supplier credit	-	-
OPEC credit	-	-
International bonds	216 _a	100 _a

a. b. c. see notes on page 2.

TABLE III
CONVERTIBLE CURRENCY DEBT OF POLAND
(in millions of dollars)

	Officially backed credits		
	1975		1976
STATUS OF COMMITMENTS			
United States	122		405
Japan	400		650
Austria	700		760
United Kingdom	1,700		1,900
France	1,250		1,700
FRG	600		1,500
Italy	310		500
Others	950		950
TOTAL	6,032		8,365
Drawings	2,357		5,380
Bank Credit			
	1975		1976
Banks reporting to the BIS	4,377 _a	4,400 _b	4,455 _c
Austrian banks		220 _b	6,191 _c
Other Credit			
	1975		1976
Supplier credit	580 _a	290 _b	2,250 _a
OPEC credit		20 _b	
FRG Government credit	300 _a	142 _b	
Non-bank claims in Austria and Switzerland		350 _b	
Public law 480		246	

a, b, c, see notes on page 8.

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TABLE IV
CONVERTIBLE CURRENCY DEBT OF THE GDR
(in millions of dollars)

	Officially backed credits	
	1975	1976
STATUS OF COMMITMENTS		
United States	-	-
Japan	57	80
Austria	290	300
United Kingdom	75	80
France	390	395
FRG	916*	1,000
Italy	36	300
Others	214	395
TOTAL	1,978	2,550
Drawings	532	1,100
Bank Credit		
	1975	1976
Banks reporting to the BIS	2,912 _a	3,200 _b
Austrian banks	232 _b	3,819 _c
		4,067 _c
Other Credit		
	1975	1976
Supplier credit	-	1,500 _a

* Inter German Saving Credit
a, b, c, see notes on page 8.

TABLE V
CONVERTIBLE CURRENCY DEBT OF ROMANIA
(in millions of dollars)

	Officially backed credits		
	1975		1976
STATUS OF COMMITMENTS			
United States	59		88
Japan	180		180
Austria	39		45
United Kingdom	235		255
France	230		275
FRG	380		400
Italy	155		165
Others	135		160
TOTAL	1,413		1,403
Drawings	1,130		500
Bank Credit			
	1975		1976
Banks reporting to the BIS	995 _a	1,050 _b 1,012 _c	833 _c
Other Credit			
	1975		1976
Supplier credit	120 _a	150 _b	1,150
OPEC credit		480 _b	
FRG Government credit		100 _b	
IMF drawings and IB loans		250	540

a, b, c, see notes on page 8.

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TABLE VI
CONVERTIBLE CURRENCY DEBT OF CZECHOSLOVAKIA
(in millions of dollars)

	Officially backed credits		
	1975		1976
STATUS OF COMMITMENTS			
United States	-		-
Japan	55		60
Austria	190		200
United Kingdom	70		80
France	155		160
FRG	240		245
Italy	59		65
Others	129		150
TOTAL	898		960
Drawings	448		480
Bank Credit			
	1975		1976
Banks reporting to the BIS	325 _a	520 _b	331 _c
Austrian banks		38 _b	985 _c
Other Credit			
	1975		1976
Supplier credit	600 _a	950 _b	800 _a

a, b, c, see notes on page 8.

TABLE VII
CONVERTIBLE CURRENCY DEBT OF THE USSR
(in millions of dollars)

	Officially backed credits	
	1975	1976
STATUS OF COMMITMENTS		
United States	468	468
Japan	850	1,820
Austria	300	-
United Kingdom	700	700
France	3,300	3,860
FRC	3,000	3,200
Italy	1,150	1,930
Others	325	845
TOTAL	10,093	10,793
Drawings	5,083	6,586
Bank Credit		
	1975	1976
Banks reporting to the BIS	5,992 _a	4,950 _c 6,877 _c
Other Credit		
	1975	1976
Supplier credit	1,800 _a	3,700 _a

a, b, c, see notes on page 8.

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Sources for Tables I to VII:

Officially-backed credits:

- 1975: East-West Markets, 20th September and 4th October, 1976.
- 1976: Chase Manhattan Bank Survey.

Bank credits:

1976 and 1977 reports of the Bank for International Settlements.

Estimates:

- (a) East-West Markets (op.cit.) and Chase Manhattan Bank Survey.
- (b) J. Nelson and E. Snell, "Estimating East European Indebtedness to the West", Joint Economic Committee 1977.
- (c) Distribution of the residual amount on the basis of the share of each East European country in the total Eastern commitments to the reporting banks.

Other credits:

- (a) East-West Markets (op.cit.) and Chase Manhattan Bank Survey.
- (b) Joint Economic Committee, op.cit.

FEBRUARY 1978 A FORFEIT MARKET RATES FOR THE PURCHASE OF
MEDIUM-TERM BILLS OF EXCHANGE FROM EXPORTERS

	Term (1)	% (2)	Swiss francs (2)	DM. (2)
POLAND	5	9.25-9.50	6.25-6.50	6.75-7.00
GDR	5	8.50-8.75	5.25-5.50	- -
ROMANIA	5	9.00-9.25	5.75-6.00	6.25-6.50
CZECHOSLOVAKIA	5	8.50-8.75	5.25-5.50	5.75-6.00
USSR	5	8.25-8.50	5.00-5.25	5.50-5.75

(1) Half-yearly repayments

(2) On the basis of average terms of 2.75 years.

Sources: East-West Markets, 20th February, 1978.

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ESTIMATE OF SOVIET GOLD RESERVES
(in tons)

	RESERVES	OUTPUT	SALES
1972	1950(1)	150 to 300(1)	200(3)
1973		250(2) to 370(3)	330(3)
1974		350(2) to 390(3)	150(3)
1975		395(3)	130(3) to 140(4)
1976		250 to 400(6)	200(4) to 320(5)
1977		250(4)	-
1972 to 1976	2,200 to 2,800	1,395 to 1,855	1,010 to 1,148

- Sources: (1) NATO AC/127-WP/378
(2) Osteuropa April 1974, in Problèmes Economiques, 11th December, 1974.
(3) S.G.D.N. circular, 28th October, 1975 No.9/CER/C.
(4) United States Bureau of Mines; In East-West Markets, 5th September, 1977.
(5) Tribune de Lausanne, In East-West No. 176
(6) Estimates based on (3) and (4).

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