Economic Development in Eastern Europe

Every spring the Department on Socialist Countries and Economic East-West Relations of the HWWA-Institut für Wirtschaftsforschung-Hamburg submits a summary of the past year's economic developments and of current trends in CMEA countries. The main results are presented here below.

**USSR**

The Brezhnev era ended in 1982 in a climate of increasing economic difficulties and the stagnation of real wages. The (applied) national income increased by 2.6% and, as in the crisis year of 1979, was therefore below the 3% threshold. Industry achieved the lowest growth-rate of the post-war years. Consequently, a revision of the medium-term targets for growth became inevitable.

For the first time since 1979 the responsibility for the failure to achieve the target for overall growth lay not with agriculture, dependent as it is upon the weather, but with industry, an area largely determined by endogenous factors. Again for the first time since 1979 agriculture managed to increase its gross output compared with the previous year; although this increase was well below the plan figure, it was nonetheless as high as 4%. At an estimated 170-180 m tonnes, the cereal harvest was somewhat better than in the previous year but will not be sufficient to meet domestic requirements. In 1982 the transport sector was again unable to ensure undisrupted supplies to industry and commerce and the limited transport capacities are partially responsible for the production losses.

Although investment was at a higher level than the Plan had foreseen, it was presumably impossible to put the projected number of new items into operation.

The planned total wages were only slightly exceeded, but since production of consumer goods was well below the planned target, the shortfalls in supplies became even more serious. Part of the population's monetary surplus demand has obviously been siphoned off by large price increases. Real per capita income, which had in previous years shown a regular rise of 3% or more, remained almost unchanged in 1982 for the first time.

In the foreign trade sector turnover rose less than in the previous year and trade became even more concentrated upon the socialist nations. With a deficit of only 42.5 m roubles, the Soviet Union managed to achieve an almost equalized balance of trade with the western industrialized nations. In contrast, the export surplus with the developing countries increased to almost four times the previous year's level as a result of a marked rise in exports and a reduction of imports.

Accelerated economic growth is forecast for 1983 and intended, at 3.3%, to be higher than in the first two years of the Five-Year Plan. The 1983 plan for industrial production and labour productivity is, however, so far below the level of the Five-Year Plan that it represents virtually a rejection of the latter's targets. We can therefore expect these to be adjusted downwards soon with little, if any, publicity.

**German Democratic Republic**

When preparing their 1982 economic plan the GDR planners could not have foreseen the reduction of Soviet oil deliveries from the original 19 m to 17.1 m tonnes p.a. nor the western banks' drastic reversal of their credit policy nor even the continuing high level of international interest rates. These developments forced the GDR to take immediate steps to consolidate its foreign trade balance with the western industrialized nations more quickly than had been originally planned. This resulted in a strict curb upon imports combined with an expansion of exports, which in turn affected domestic production because the effects emanating from foreign trade caused a decline in the investment resources and materials which were domestically available.

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Consequently, there was bound to be a deterioration in the growth potential of the GDR's economy; the shortage of resources produced a levelling-out of the growth curve.

When compared with the self-imposed targets, the past year of the plan was in the last analysis a year of economic disillusionment for the GDR — apart from the successes achieved in foreign trade with the non-socialist economies (the western industrialized nations, including the Federal Republic of Germany, and the developing countries). After the second year of the 1981 — 1985 period it is clear that the main global macro-economic targets can no longer be achieved during the current Five-Year Plan.

In 1982 the growth of produced national income was 1.8 % below the planned level and reached only 3.0 %. This is the lowest growth-rate since the beginning of the 1960s. At 2.3 % over the previous year's level industrial growth, which attained or even exceeded its targets in 1980 and 1981, was 1.4 % below the planned figure. Despite the best cereal harvest ever achieved in the GDR (over 10 m tonnes), overall its agriculture was unsuccessful in 1982 as regards both animal and plant production.

Domestic applied national income having been at times well above the produced national income as a result of constant import surpluses since 1973, the growth in produced national income was employed primarily for exports in 1982 by means of an unprecedented effort in the foreign trade sector; overall, distributed national product probably stagnated. Thus investment of 57 billion Marks (1981) was reduced to 54.3 billion Marks (1982). In real terms the supply of goods was lower than in the previous year when assessed on the basis of retail sales. Considerable disruptions of supplies occurred throughout the country, particularly during the third and fourth quarters of last year.

According to the report of the Deutsche Außenhandelsbank AG (German Foreign Trade Bank), or the calculations based upon it, in 1982 the GDR's imports plus exports increased by 9.4 % over the 1981 level to 145.39 Valuta Mark (VM). Exports rose by 14.4 % to 75.39 billion VM while imports increased by 4.5 % to 70 billion VM. Thus the GDR's trade balance for the year showed a "sensational" surplus of 5.39 billion VM. In 1980 the foreign trade deficit was 5.84 billion VM and in 1981 1.07 billion VM. Trade with the non-socialist nations rose by 11.7 % to 49.57 billion VM. Exports improved by 23 % to 27.41 billion VM while imports rose by only 0.3 % to 22.15 billion VM.

Consequently, the export surplus "reported" for the past year was achieved almost entirely from trade with that sector.

As a result of the changed attitude adopted by western banks towards all the East European nations owing to the unstable situation in Poland and Romania a credit freeze has de facto also been applied to the GDR since the beginning of 1982. The fact that it has been able to avoid any large-scale rescheduling of its debt despite this situation must be considered a success. The GDR has obviously managed to meet its payment obligations without outside help.

The 1983 Plan is once again marked by the GDR's problems in the foreign trade sector. The planned rise in the produced national income and its intended distribution indicate that it will employ an increasing proportion of its national product to cover foreign trade deficits.

With a marked reduction in the volume of investment only a slight rise in private consumption is planned. Imports plus exports are to increase by a nominal 13 %. When judged against the previous year's targets, a relatively conservative attitude has been adopted when calculating the figures in the plan; yet in some cases they are above the previous year's actual achievements. The produced national income is to grow by 4.2 %. This is the lowest planned growth-rate since 1966.

Poland

Contrary to the Polish Government's official statements, no decisive upturn occurred in the economy in 1982. The economic policy measures for recovery backed by martial law have not proved particularly effective. The produced national income fell by a further 8-9 %, industrial output by 2 % and agricultural production by 4.5 %. It became perfectly clear during the past year that the country's economic decline has been caused by two factors in particular for which economic policy is largely responsible. Firstly, the policy of a curb on Western imports was continued in the directing of every last effort towards achieving an export surplus and also in pursuance of the aim of re-orientation toward the CMEA. Secondly, investment was again reduced — by as much as one-fifth — in favour of consumption. The macroeconomic investment ratio was therefore less than 10 %.

The direct and immediately perceivable effects of this policy are a diminishing utilization of capacities, especially in manufacturing, stagnation of the building industry and a resultant reduction of output in the decisive sectors of material production.
Yet this development also impairs the chances of any permanent resuscitation of the economy. Any policy which curbs imports of production inputs and accepts short-term losses of national income is economically rational only if at the same time restrictions on domestic consumption provide sufficient resources for investment, which reduces the existing dependence upon imports, remedies bottlenecks in production and the infrastructure and results in large-scale modernization and rationalization. This requires, however, a strong rise in the investment ratio and a corresponding drop in the consumption ratio. Yet, as in previous years, the Polish Government has applied a policy in 1982 which completely disregards the predominant part played by investment in overcoming the crisis.

The figures in the 1983 Plan indicate no fundamental change of course in this respect. Under these circumstances the targets of the 1983-1985 Three-Year Plan presented by the Government in 1982 are unattainable. This Plan provides for an average annual growth-rate of more than 5 % in national income with no change in the unsatisfactory production conditions (stagnant investment and imports of production inputs from the West).

Yet for the first time since 1971 Poland again achieved an export surplus in its trade with the western industrialized nations in 1982. This surplus of some $ 550 million cannot, however, be unreservedly described as a success. It was obtained primarily as a result of the drastic reduction of imports, but also via an export policy, which has in many cases involved losses in the terms of trade and a deterioration in domestic supplies.

The country’s indebtedness to the West rose by a further 5.5 % in 1982 expressed in Polish currency although – in US dollars – it fell by $ 800 million. This drop is, however, the result of the improvement in the dollar against other weak western currencies in which Poland also has debts. In other words, Poland has in fact to export more goods in order to repay each dollar of debts.

If the present economic policy is continued, it is hardly possible to foresee sufficient export surpluses to pay the annual interest of several billion dollars – to say nothing of the repayment of the principal – by the end of the 1980s. A change of course in economic policy is needed to one which improves the investment ratio and discontinues the policy of curbing imports from the West.

**Bulgaria**

Bulgaria’s economic growth became even weaker in 1982. Although the economy is still on an upward trend for the time being, there is a risk of stagnation. Very conflicting statements have been made recently concerning the development of the national income in 1981 and 1982. The latest correction of this vital figure was announced at the end of January 1983 when, without any substantiation, the 1982 national income was said to have grown by only 4 %.

Whereas in December 1982 the Head of Planning stated that the increase in real income for 1981 and 1982 combined had been 9 %, six weeks later the actual figure for 1981 was given as 3 % and was also estimated at 3 % for 1982.

With a current inflation rate (cost of living) of around 5 % per annum and a planned rise in real income of only 2.8 % for 1983 it would appear that the Bulgarian Government is trying to induce greater flexibility in the pricing system in order to implement the New Economic Mechanism so that concerns now operating on the profit principle will have more freedom of decision and incentives for profitable management.

One fact with extremely positive implications for the future is the freeze on indebtedness to the West, which is estimated at about US $ 3 billion, with a debt service ratio of around 25 %. Since Bulgaria has also managed to achieve surpluses on its balance of trade with non-socialist nations and the Third World (1980: 0.7 billion Lewa; 1979: 0.3 billion Lewa), it has a good chance of reducing its foreign debts.

The decline in foreign trade must, however, cause concern since with its extreme shortage of raw materials and energy Bulgaria is very much dependent upon that trade. Against this background the comparatively rapid rate of growth in the energy, mechanical engineering, electronic and electrotechnical industries will have a beneficial effect since they produce important and profitable goods for export and reduce the serious dependence upon imports in the energy sector.

The 1983 Plan places emphasis on investment policy. Total investments will reach the level of 7.54 billion Lewa, of which 5.4 billion are provided for expanding present capacities by means of conversion and modernization operations. New building works are therefore rather limited. “Automatization”, “electronization”, “effective utilization of material resources” and “early start-ups” are the expressions most frequently encountered in the reports on the investments planned for 1983.
Hungary

Despite a combination of many unfavourable factors in 1982 – a further deterioration in the terms of trade, a drop in sales of Hungarian products on the world market, reduced supplies of fuels from Poland and the USSR, growing indebtedness to other countries and favourable credit conditions on the international capital markets – the Hungarian economy has been able to consolidate its position, even though it has produced only modest growth-rates: it was possible to reduce the deficit on the balance of payments expressed in hard currency by more than the planned amount, to preserve the country’s payment ability and at the same time maintain the population’s standard of living. In 1982, national income rose rather more quickly than planned by 1.5-2 % to more than 670 billion Forint. As planned, domestic consumption fell by 2 % so that for the first time since 1973 consumption did not exceed that which was produced within the framework of the national income. The country’s industrial output increased in 1982 by only 1.5-2 % instead of 2-2.5 %, as planned – principally because of the drop in demand at home and abroad but also to some extent as a result of a shortage of imported raw materials.

Industry’s capital investment could not be kept down to the necessary level. Although by the end of the year the measures to absorb liquidity, which were introduced in mid-1982, and a restrictive credit policy had reduced industry’s willingness to invest, these at the same time also contributed to the fact that the number of uncompleted investment projects in Hungary again increased for the first time in two years. The large number of incomplete investment projects, the longer-than-planned investment periods, difficulties in selling on the domestic and foreign markets combined with internal organizational problems and, particularly, the inability of many firms to cope with the increasing financial demands during the year caused serious liquidity problems for a large number of Hungarian concerns in 1982. In the second half of the year there was an increase in the number of concerns trying to cope with payment difficulties as a result of the price rises for raw materials and energy, the increased rates applied by many haulage firms, the banks’ stricter credit conditions, the measures to absorb liquidity and, last but not least, the import restrictions.

The general drop in investment activities by both the State and enterprises means that the country’s construction industry, whose capacity has been under-used in any case, will have to accept a further drop of 2-3 % in the value of its output in 1983. Industrial output too will grow by only 1-2 % this year owing to the decline in demand on the home and foreign markets and the continuing import restrictions. Overall, the country’s gross output is expected to rise by 1-1.5 % and, as a result, the national income will increase by only 0.5-1 %, allowing for the higher debt repayments. With a view to consolidating the balance of payments, the distributed national product will fall by a further 3-4 % this year, in which process there will be not only an almost 10 % drop in accumulation but also a reduction of 0.5-1 % in consumption for the first time for many years in Hungary. To improve even further the balance of trade surplus expressed in hard currency, imports from western nations are to be restricted by a further 1-2 % in 1983 while exports to those nations are to be expanded by at least 6 %, a very ambitious target when we consider the high proportion of imports in Hungary’s exports, especially since the drastic restrictions on imports in 1982 have already caused losses of output or at least deterioration in the quality of the products in some sectors.

Romania

Romania has been going through a phase of rapidly diminishing economic growth since the mid-1970s. Again in 1982 it was unable to stabilize its economic position. The problematic areas which are always stressed in the Romanian press and Ceausescu’s speeches, namely insufficient supplies of raw materials and energy, an inefficient agricultural sector and the dangerous trends in foreign trade and payments, still exist. After a 2.1 % growth in national income in 1981 – the lowest for 25 years – national growth in 1982 was still only 2.6 %. The fact that a higher growth-rate than in the previous year could be achieved at all was due solely to the agricultural sector, the slowing-down of growth in industrial production experienced in 1981 continuing in 1982. In real terms gross output rose by only 1.1 % and net output by 3.3 %, i.e. both growth-rates declined further compared with 1981.

Yet the good results from agriculture in comparison with the previous years – a sector which met the global annual planned target for agricultural production for the first time since 1979 and whose growth of 7.5 % is well above the growth-rate for the economy as a whole – can scarcely be attributed to successful implementation of the long-advocated structural and organizational change in agriculture but is due essentially to better weather. After two years of declining production the growth in agricultural output achieved in 1982 did at least prevent a further deterioration in the population’s
food supplies, which have been at an increasingly critical level since 1981.

As regards industrial production, inadequate supplies of energy again formed the principal constraint to growth. The planned expansion could not be achieved for any of the energy sources for which figures are published: on the contrary, coal output (37.9 m tonnes) was only slightly above the previous year and petroleum recovery stagnated (11.7 m tonnes), while electricity generation dropped by 1.6% to 69 billion kWh. Only natural gas extraction was able to show a growth of almost 11%, but this too was not in line with the planned target.

Up to and including 1980 Romanian foreign trade had always been one of the few areas in which the planned levels had not only been achieved but actually surpassed. The effects of the general economic crisis did not begin to appear in the foreign trade sector until 1981. In 1982 it recorded greater losses than all other national parameters: whereas national income and industrial production showed a relative drop in growth but as yet no decline in absolute terms, foreign trade fell by nearly 17%. The almost 10% drop in exports was particularly disappointing because, in an attempt to equalize its balance of trade, Romania is now making serious efforts to increase its exports. Imports fell by almost 25% compared with 1981. As a result of Romania’s rigid import restriction policy the balance of trade, which had been producing increasingly serious deficits since 1977, showed surpluses again in 1981 and 1982, even in its trade with the western hard currency countries, contrary to all expectations and forecasts. But as regards trade with the West in 1982, only nine months’ figures from the OECD are available and, according to these, Romanian exports to the OECD nations fell by 21% to $2.13 billion during that period (compared with the same period in the previous year) and imports from those nations actually dropped by 43% to $1.4 billion.

After Romania’s increasing payment difficulties began to become apparent in the second half of 1981, since the beginning of 1982 it is no longer able to meet its debt service obligations. With total debts of some $10 billion Romania would have had to provide $2.3 billion to pay off long and medium-term loans and $1.15 billion for interest last year. In fact, some $5.5 billion would have been required if repayment of short-term loans and the overdue loans of the previous year were included. Romania was obliged to apply officially for deferred payment at the beginning of 1982; thus, it was the second CMEA nation after Poland which has been obliged to reschedule its loans from the West.