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Economic Development in Eastern Europe

Every spring, the Department of Socialist Countries and East-West Economic Relations at the HWWA-Institut für Wirtschaftsforschung-Hamburg submits a summary of the past year's economic developments and of current trends in CMEA countries.¹ The main results are presented here.

USSR

1983 was the most successful year for a long time: industrial production exceeded the planned target and achieved the highest growth rate (4.0 %) since 1978. Transport, which is a permanent bottleneck and often the cause of losses of production, also surpassed the planned level to attain the highest growth in performance (4.8 %) since 1978.

Agricultural output was also considerably better than in the previous year (5 %) but was not sufficient to fulfil the target (9 %) which had been raised even higher. According to western estimates, the cereal harvest was approx. 200 million tonnes, i.e. 20-30 million tonnes more than the previous year, but was insufficient to meet domestic demand.

The increase in foreign trade was less than in 1982, with a virtual stagnation in trade with the West (+ 1.7 %). Trade with the socialist countries improved by almost 10 %, and by approx. 5 % with the developing countries.

The growth of the economy as a whole was slightly below target due not least to the fact that agriculture did not achieve the planned level. With an increase in (applied) national income of 3.1 % (instead of 3.3 %) economic growth was, however, just half of a percentage point higher than in the previous year.

Consumers were disappointed by the upswing. Despite the economy's good performance, the increase in their real income was less than promised (2 % instead of 3 %).

Klaus Bolz (ed.): Die wirtschaftliche Entwicklung in ausgewählten sozialistischen Ländern Osteuropas zur Jahreswende 1983/84, Verlag Weltarchiv GmbH, Hamburg.

Two factors in particular can be cited to explain the economic success: an improvement in the performance of the basic industries, where the bottlenecks were partially alleviated, and the effects of the campaign for more discipline, which cannot be quantified.

These factors alone are not enough to maintain growth in the long run: productivity cannot be improved limitlessly by means of disciplinary measures and the production of basic materials is restricted by the shortage of capacities.

The efforts being made to improve growth prospects are twofold:

- ☐ increases in capital expenditure above the levels set in the Five Year Plan;
- ☐ reforms of the control system and extensive experiments in selected economic sectors. The experience gained from the experiments is to be employed for formulating a new concept of reform for use in the next Five Year Plan.

A return to the growth rates of around 5 % which were achieved in the early 1970s is, however, unlikely; instead, consolidation of growth rates at the present level can be expected.

German Democratic Republic

There has been a lasting improvement in the prospects of growth in the East German economy compared with the general situation in 1982. Whereas the effects of its exertions in foreign trade caused a shortage of the resources available domestically in 1982 and thus an inevitable levelling-off of the growth curve, the GDR was able to change its tactics in 1983.

The growth in produced national income, i.e. the increase in total production for private and state consumption, capital investment and export in 1983, was 4.4 % above the 1982 level, surpassing the target fixed in the National Economic Plan by 0.2 percentage points. Production of industrial goods also increased more rapidly than originally planned; productivity improved satisfactorily. Despite what was probably the best cereal harvest ever produced in the GDR (more than 10 million tonnes), plant production was unable to achieve its target owing to the dry hot summer. Animal production was stabilized. A surplus was again obtained in international trade, following that of 1982. For the first time since 1981, the GDR's imports again increased more strongly than exports, although only slightly. The country's total capital investment, which must have been about 7 % above the 1982 level, gained particular benefit from this increase.

Despite the accelerated growth of the economy as a whole, the consequences for the East German people were depressing. When measured in terms of retail sales, private consumption rose by only 0.5 % instead of the planned 3 % at current prices. In 1983 again the population very clearly felt the effects of the fundamental change which has now taken place in general economic conditions. In real terms, supplies of goods were again lower than in the previous year. Although pronounced disruptions of supplies did not occur nationwide as in the second half of 1982, the fact that the East German population was unable to share in the growth of the economy is bound to destroy some of the motivation of the working population.

The GDR's volume of foreign trade in 1983 increased by 12 % over the 1982 level to 162,522 million Valuta Marks (VM). Its exports rose by 11.6 % to VM 83,986 million and imports by 12.4 % to VM 78,536 million. Its export surplus totalled VM 5.45 billion in 1983 compared with VM 5.35 billion in 1982. In 1980 the GDR still had an import surplus of VM 5.84 billion. Again in 1983 the country has evidently met all its payment commitments to western lenders. According to information provided by the Bank for International Settlements (BIS), during the last year the GDR has managed continuously to reduce its (net) indebtedness from \$6,638 million in December 1982 to \$5,101 million at the end of September 1983. On the one hand, its gross indebtedness, i.e. debts to reporting banks, was cut by just under \$600 million to \$7,933 million in the first three quarters of 1983 while, on the other hand, the reporting banks' commitments to the GDR increased from \$1,878 million to \$2,832 million in September 1983. The rise in East German deposits can be attributed, firstly, to the

GDR's export surplus in relation to OECD countries and, secondly, to the Federal Republic's DM one billion loan in the summer of 1983. The GDR is probably using that loan for servicing its debts to the OECD countries. That loan should have made it possible for the time being to mitigate the GDR's current deficit problems in relation to western lenders; to judge by all the statistics so far produced for the plan year 1983, it can be stated that the GDR has its indebtedness under control. Its credit status must have considerably improved.

At the end of 1983, total indebtedness to the Federal Republic (accrued deficits) was DM 4 billion. Accordingly, the GDR's (net) indebtedness to the West as confirmed by the statistics totals \$6.67 billion, including intra-German capital movements. The GDR can also be expected in 1984 to fulfil its payment commitments, which are well below those of 1983. In doing so it will continue to be helped by the DM earnings (excluding clearing transactions) of approx. DM 2 billion per annum.

The 1984 Economic Plan's foreseen increase in produced national income and its proposed application indicate that, as in the last planning year, the GDR intends to continue its course of consolidation. As the volume of investment diminishes, only a slight rise in private consumption is intended for 1984. The volume of foreign trade is to rise by only 5 %. This is the smallest planned expansion of foreign trade for many years. Exertions in the foreign trade sector such as those of 1982 are no longer considered necessary. An export surplus will probably be achieved again in 1984.

Now that the third year of the medium-term planning period (1981-1985) has ended, there is no doubt that the GDR will certainly not reach its original growth target during the present five-year planning period. Nor will industry be able to achieve the target fixed for it in the Five Year Plan, although the building industry should attain its medium-term growth target. The Five Year Plan's target will most clearly be undershot in the field of private consumption. The population of the GDR is now paying the price for the high foreign indebtedness incurred during the second half of the 1970s.

Poland

The Polish economy was able to record a surprisingly large growth last year. After the produced national income had fallen at – on occasion – an alarming speed for four years, in 1983 it expanded by 4-5 % in terms of fixed prices. The Plan had forecast a growth of only 2.5 %. The produced national income thus recovered

more or less to the 1974 level. The plan targets for industry, agriculture and building were also exceeded. On the other hand, foreign trade did not come up to expectations even though exports to and imports from the West increased. Nevertheless, for the second year running trade with the western industrial nations produced an export surplus which at \$730 million was even \$200 million higher than in 1982.

These generally positive developments mean that the growth targets set in the 1983/85 Three Year Plan are within reach. The target for 1984 requires a 2.6 % growth in national income which is very conservative when compared with last year's results. Yet if this modest result is achieved, a mere growth of 2.3 to 5.3 % would be all that is required in 1985 in order to fulfil the main aim of the Three Year Plan – a 10 to 12 % growth in national income over the 1982 level.

The generally good results can be attributed mainly to the short-term mobilization of internal reserves, including the extension of industrial working-hours and an increase in the extraction, production and importing of raw materials. In recent years, however, we have repeatedly pointed out a number of urgent problems which must be solved before the crises in growth and the balance of payments can be permanently overcome. The requirements for such a solution include in particular less dependence upon imports by industry, the removal of serious bottlenecks (e.g. in the transport and communications sectors) and, generally speaking, the undesirable trends in the structure of industry deriving from previous years, as well as modernization and rationalization to improve the competitiveness of Polish products on world markets. Capital expenditure is therefore necessary and this can be funded only by restricting consumption.

Although the planned volumes of capital expenditure in industry were easily exceeded last year, this has obviously not helped to satisfy any of the above requirements for a long-term solution of the crisis. The additional capital expenditure took place only in the housing sector. The report on the fulfilment of the Plan also tersely states that it had been impossible to make greater changes in the structure of production.

The export surplus from trade with the western industrial nations registered a marked increase over the previous year's level. It totalled \$729 million, i.e. \$220 million more than in 1982. A crucial factor was the 10.6 % rise in exports which must, however, be attributed to non-recurring re-exports.

Yet Poland is still a long way from achieving sufficient hard-currency surpluses for funding at least the interest

payments to western banks, not to mention all the other creditors. The 1983 export surpluses compared with matured interest of \$2.9 billion, and approximately \$3 billion will fall due in 1984.

Indebtedness in western currencies rose from \$ 24.8 billion at the beginning of 1983 to about \$ 26.5 billion at the beginning of 1984. If the dollar's position against most western currencies had not improved in 1983, indebtedness to the West would actually have been \$ 1 billion more.

The change in the pattern of exports is alarming. The growth in exports to the West can be almost entirely attributed to higher exports of raw materials and fuels, while exports of finished industrial products from the electrical engineering industry fell for the third year in succession. It is becoming increasingly evident that the pattern of exports to the West is reverting to that of the 1950s. It is foreseeable that, in the medium term, both the demand side and the production side will set limits to any expansion of exports of raw materials. If Poland intends to find a permanent remedy for its crisis, steps will eventually have to be taken to increase the exports of more sophisticated manufactured goods.

Thus, in view of the strains in the foreign trade and payments sector, one major task of the Polish government is to increase the macroeconomic margin for investment, particularly by reducing the pronounced trend towards higher consumption, so that the necessary restructuring and modernization of the economy can be carried out, the existing productive capacity prevented from becoming obsolete and international competitiveness increased. Any further delay in solving this problem to the benefit of consumption could cause the country to slide back into the crisis within a few years.

Czechoslovakia

For the first time, the third year of the current (7th) Five Year Plan produced a 2.2 % growth in national income after two negative growth rates. With a rise in the volume of capital expenditure (2.2 % instead of the planned reduction of 1.9 %!) gross industrial production expanded by 2.7 %, the output of the building industry by 2.2 % and gross agricultural output by 2.2 %.

Following the reductions in the standard of living in real terms in previous years a slight relaxation seems to have taken place in 1983, especially in the supply of consumer goods to the population. Nevertheless, complaints were still heard about the lack of quality and variety of the goods on offer.

In the foreign trade sector the main aim – the reduction of indebtedness to the West, which is small in any case – was consistently pursued: export surpluses in trade with the developing countries (Kcs 5.1 billion) together with a stagnant and, following import restrictions, balanced trade with the western industrial nations made possible a reduction in debt of some \$ 7,000 million so that the portfolio of debts in convertible currencies is now estimated at approximately \$ 3 billion.

As regards trade with the socialist countries, the balances with the smaller CMEA countries showed a slight positive result (Kcs 0.3 billion). This marked a contrast with the import surplus in trade with the Soviet Union, while the volume of this trade experienced a 14.2 % expansion. The additional supplies from the USSR, totalling Kcs 4.1 billion in 1983, bridged a large gap between produced and applied national income. On a regional level, the 12 % increase in the volume of trade with the CMEA countries and the mere 1.9 % expansion of trade with the western industrial nations and the developing countries in 1983 markedly increased intra-bloc integration: 72 % of Czech foreign trade last year was with CMEA, with the USSR alone accounting for 44 %.

The published planning data for 1984 indicate subdued optimism. The overall objective is a 3 % rise in national income and a 2.9 % planned increase in gross industrial output and, as far as possible, total capital expenditure is to be kept at the previous year's level. A number of economy programmes for the specific consumption of raw materials and primary energy are to mobilize more of the reserves available in the economy; in other words, they are to help in the short run to tide over the shortage of funds for a fundamental modernization of the generally obsolete production equipment. In the long term, however, restrictions on capital expenditure and an intensification of trade with CMEA cannot produce any new stimuli for the Czech economy, which urgently needs such stimuli to improve its competitiveness on world markets.

Hungary

Although the main current economic objectives – ensuring international solvency and reducing net foreign indebtedness – were achieved in 1983 and an aggregate foreign trade surplus of almost 10 billion forint was attained, it is impossible to say that the Hungarian economy developed satisfactorily, especially since the improvement in the external balance of payments was to some extent obtained at the expense of disturbances

of the equilibrium on domestic markets. In addition the positive net export figure, which was achieved largely by reducing domestic consumption, remained below the plan target, owing not only to the unfavourable developments in the terms of trade and the harvest losses caused by the weather, but also to the general weakness in exports of Hungarian industry.

Produced national income rose only slightly to 730 billion forint in 1983 while the number of persons employed in material production dropped by 1.5 % and structural changes and improvements in efficiency did not reach the planned levels. The reasons for the lack of economic growth are very diverse: amongst other things, shortages of raw materials occurred in the food industry owing to the bad harvest, while other, export-oriented industrial sectors encountered difficulties in selling on the world market and/or procurement problems caused by import restrictions; the capital goods industry aimed at the domestic market suffered from the small number of orders on hand because of the Government's measures to hold back demand, and the transport sector obtained a low yield as a direct result of stagnant production. In some places production was also hampered by labour shortages and problems with domestic cooperative links.

Not only the generation but also the application of the national income in 1983 conflicted with the ideas of those responsible for Hungarian economic policy because domestic demand was not sufficiently restrained: the planned reduction in private consumption was impeded by the rise in household incomes resulting not so much from the wage and salary increases averaging 4-5 % – less than the previous year – as from an unforeseen rise in "other income". Although it was possible to keep the demand for capital goods more or less to the 1982 level by means of a particularly restrictive budget policy (additional measures to mop up liquidity reduced the budget deficit planned for 1983 from 10.2 to 7 billion forint and this year's deficit to approximately 3.5 billion forint), both public and business sector capital expenditure exceeded the plan target.

Officially, the main reason for the additional public capital expenditure was unexpected increases in the costs of individual major projects (such as the construction of the Paks nuclear power station) while the uninterrupted boom in the capital expenditure of the business sector resulted from a business policy which continued to be directed towards extensive growth and was able to evade the liquidity-reducing measures of the budget agencies by increasing drawings from development and reserve funds.

In 1984 a large proportion of business earnings are therefore being centralized and the grants and loans for investment are being further reduced. The aim is a 10 % drop in the volume of investment to 180-183 billion forint with absolute priority being given to projects for increasing export capacity, more rational use of energy and materials, import substitution, the production of energy sources and, finally, the development of the telephone network. In 1984 cuts are being made in the funds for extending the road and rail system, for communal facilities and for house-building. Domestic consumption in 1984 is to be cut by 1-2 % by these reductions in capital expenditure, further centralization of business earnings and by decreasing consumer price subsidies by 14-15 billion forint because the planned 1-1.5 % rise in national income is not in itself sufficient to produce the hoped-for increase in the export surplus. Yet there are limits to this austerity policy, especially since the proportion of investment expenditure in gross domestic product has fallen from 34.3 % in 1979 to 24.7 % in 1983 and the decelerated expansion of productive capacity prevents the necessary improvements in the quantity and quality of goods supplied to both the export and the domestic markets. Even if it is achieved, the 2 % economic growth forecast for 1984 will be insufficient for adjusting the supply of goods and services to demand and for attaining the economic targets fixed in the Five Year Plan. Since the annual repayment commitments for hard-currency loans will not reach their peak of about \$1.6 billion until 1985, the restrictive economic policy cannot be expected to be slackened and economic growth stimulated in Hungary until 1986 at the earliest.

Rumania

With a real growth of 3.4 % in produced national income compared with 1982 Rumania managed to achieve a 0.8 % improvement in its overall growth in 1983. In view of the strict austerity which the Rumanian economic authorities maintained in 1983, this slight economic revival can no doubt be considered a success even if the original planned target of 5 % could not be attained. In any case, this target was felt to be unattainable by the Rumanian planners themselves at the beginning of 1983.

Investment increased more strongly than planned in 1983, at 2.9 % in real terms. As in previous years, priority was given to capital expenditure projects aimed at expanding the country's own raw materials and energy base, increasing export capacity and developing the import-substitution sectors.

While the 1982 growth in national income was essentially attributable to high agricultural output, the

modest improvement in 1983 must be ascribed mainly to industrial production, which increased considerably more rapidly than national income. Gross industrial output rose by 4.8 % and net output by 5.1 %. This growth is remarkable, not least because of the 4.3 % fall in imports in real terms which again affected mainly imports from the West and reduced the availability of western primary products for industrial production below the 1982 level. It is claimed that the drop in imports has not been detrimental to the production process because, firstly, agricultural imports could be reduced owing to the good harvest in 1982 and, secondly, the resources available in industry could be employed more efficiently due to new production methods.

In the foreign trade sector, the strict continuation of consolidation policy made a further reduction in indebtedness possible. With a slight improvement in total foreign trade (an increase in volume of 1.4 % in real terms over the 1982 level: exports + 6.0 %, imports - 4.3 %) imports in convertible currency fell by 14.2 % to \$ 3.2 billion in the first nine months of 1983 with an even greater drop in imports from the western industrial nations. Over the full year, these decreased by 38 % from \$ 1.93 billion (1982) to \$ 1.2 billion. This unplanned drop in imports could not be avoided, mainly because it was impossible to achieve the expected rise in exports to both the convertible currency zone as a whole and to the OECD countries. For example, in trade with the western industrial nations exports fell by 30 % to \$ 2.4 billion. The available figures concerning foreign trade with the convertible currency zone during the first nine months of 1983 indicate that Rumania probably has achieved, if not actually exceeded, its target for the balance of trade surplus in convertible currency (\$ 1.6 billion) and for the current account (\$ 800 million). By September 1983 the current account surplus was already \$ 631 million.

Despite the further higher growth rate of the main macroeconomic indicators in 1983 - national income, industrial output, capital expenditure and foreign trade - Rumania's economic problems have by no means been overcome. The attempts to consolidate will continue in 1984, even if initially Rumania cannot call upon any further IMF funds because the IMF standby credit expired prematurely on 31.1.1984, which means that, for the time being, Rumania is no longer governed by any specific requirements of the IMF in relation to its economic policy. Yet Rumania is hoping for a new injection of balance-of-payments aid in the second half of the year and its economic policy will therefore have to continue to comply with the IMF's restrictions in 1984.