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Economic Developments 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

The new secretary-general, Mikhail Gorbachev, has assumed responsibility at a time in which, following a number of setbacks, industry claims its second upswing year (1984: + 4.2 %). However, slack growth in basic industries casts a shadow on this good performance. In view of the fact that basic materials are deficit goods, supply bottlenecks cannot be ruled out.

The development is completely unsatisfactory in the field for which the secretary-general was previously responsible: gross agricultural output has remained at the previous year's level (plan: + 4.4 %). The cereal harvest, which revealed an improving tendency since the low of 1981, decreased to approximately 170 million tonnes. This situation in agriculture is a major reason for the inability of the economy as a whole to achieve the plan target.

The volume of foreign trade expanded by 9.6 %, primarily in favour of trade with socialist countries. With regard to its trade with the West, the Soviet Union has managed to increase its trade surplus even further. Its surplus in trade with the Federal Republic of Germany (DM 3.6 billion) is the highest figure of the past few years.

National income (applied) increased by 2.6 % to 496 billion roubles (fixed prices). This is down on the figure for the previous year and lower than the plan target

(3.1 %). The application of this national income does not seem to have benefitted consumers. The two main indicators of consumption in Soviet statistics, real per capita income and retail trade turnover, fell short of planning targets. At the same time, more has been spent on investment than originally planned.

Now that four years of the current Five Year Plan have passed it is already becoming clear to what extent the Plan's objectives will be achieved. The transition to so-called intensive economic growth, which is to be primarily effected via greater productivity of the factors of production, is too slow. This transition, however, is urgently needed if long-term growth is to be ensured. In an effort to invigorate the waning economic growth, the state leaders have in recent years stepped up investment spending at the expense of consumption. The so-called social component of the Five Year Plan, which was emphasised with such great propagandistic effort when the Plan was adopted, will therefore not be achieved. Real per capita income will miss the Five Year Plan target level for 1985 by roughly 4 %. Output performances in industry and agriculture, however, will also be approx. 5 % lower than target levels.

The obvious growth weakness of the Soviet economy is a major reason for the growing willingness of the state leaders to carry out reforms. The experiments which began last year in selected economic sectors have met with a generally positive response. These experiments were extended to include a total of 5,000 production plants on 1 January, 1985.

German Democratic Republic

In view of the considerable internal and external strains which faced the East German economy three years ago

¹ Klaus Bolz (ed.): Die wirtschaftliche Entwicklung in ausgewählten sozialistischen Ländern Osteuropas zur Jahreswende 1984/85, Verlag Weltarchiv GmbH, Hamburg. The report on the GDR was written by Peter Plötz, that on the USSR by Edward Böhm and Sybille Reymann, and that on Rumania by Petra Pissulla, all from the HWWA-Institut für Wirtschaftsforschung-Hamburg. The contribution on Poland was written by Hubert Gabrisch and that on Bulgaria by Ilse Grosser, both of the Wiener Institut für Internationale Wirtschaftsvergleiche, Vienna. The author of the report on Czechoslovakia was Franz-Lothar Altmann, Osteuropa-Institut, Munich. The report on Hungary was contributed by Andreas Wass von Zege, University of Hamburg.

– the reduction of Soviet oil deliveries, the steady deterioration of its terms of trade, the western banks' drastic reversal of their credit policy, and the continuing high level of international interest rates – the last planning year was clearly a successful one for party and economic leaders alike. According to the data published in the 1984 plan fulfilment report, national economic growth again increased. The consolidation policy pursued since 1982 was thus successfully continued.

The growth of produced national income in 1984 was 5.5 % up on the 1983 level, thus surpassing the target fixed in the National Economic Plan by 1.1 percentage points. This was the highest growth recorded during the past ten years.

Although produced national income is always recorded in comparable prices, doubts are in order with respect to the 1984 figures. On the one hand, producer and producer goods prices were raised sharply in the wake of the reform of the agricultural prices system which began on 1 January, 1984. It cannot be ruled out that the agricultural sector's contribution to produced national income was blown up by price influences. Furthermore, there is a possibility that when introducing new products individual economic units have been guilty of an unjustifiable apportionment of costs in their pricing. To encourage the introduction of new products production units have been granted additional profits for new products since the beginning of last year. As, according to the 1984 plan fulfilment report, the share of new products in sectors subject to the control of the industry ministries amounted to 21 %, these additional profits may well have entered into the costing of production on account of the lack of comparable prices. It cannot be ruled out, therefore, that the produced national income recorded for 1984 is not free of price influences!

The production of industrial goods (+ 4.2 %) increased at a faster pace than originally planned (+ 3.6 %); there was a welcome improvement in the productivity of industrial labour.

The development of the agricultural sector was one of the decisive factors for the acceleration of domestic growth with regard to both the previous year's performance and the 1984 target. Target objectives were surpassed substantially here. The cereal output figure of 11.5 million tonnes and the average hectare yield of 45.0 decitonnes meant a record performance. Together with the good weather conditions, the reform of agricultural pricing clearly proved to be a successful measure for boosting agricultural production. Animal production continued its stable development.

On the application side the economy's overall investments have not, at least not directly, benefitted from the expansion of imports compared with exports. Against the background of the price increases effected in 1984 for producer and construction goods, total investments probably fell by about 5 % in real terms compared with 1983. This clear drop in investments need not necessarily lead to a growth setback during coming years. Even with a declining investment ratio the effects of technological advances, organisational measures etc. and a contraction of the construction sector can result in an expansion of production.

For the first time since the beginning of the 1980s the accelerated growth of the economy as a whole had positive consequences for the East German people. Measured in terms of retail sales, private consumption rose *nominally* by 4.1 % instead of the planned 2.2 %. This was the highest retail sales growth figure during the current Five Year Plan period.

The increase in produced national income envisaged in 1985 and its planned application indicate that the GDR will stick to its consolidation course. In terms of last year's actual plan performance figures the planning targets have been relatively cautiously calculated, roughly resembling the targets fixed for the last planning year.

However, despite accelerated growth last year there can be no doubt following this fourth year of the medium-term planning period 1981-1985 that the major global targets of the current Five Year Plan will not be achieved. Only the construction and agricultural sectors will be able to reach their medium-term growth objectives.

Poland

In 1984 the produced national income of the Polish economy grew by just over 5 %. This was the second highest growth rate among CMEA countries (behind Rumania). In view of the high foreign claims on the national product (debt interest and redemption) the fact that applied national income increased at almost the same rate is a problematic aspect. The foreign trade surplus did not increase as fast as in the previous year, since imports grew nominally at a much faster pace than exports and, in addition, there was a deterioration in the terms of trade to the tune of 2 to 3 %.

Output and industry increased by approx. 5.3 % and labour productivity – measured in terms of gross output per employed person – by 5.9 %. Since both rates were

down on the 1983 figures there are signs in this sector of a slight slowdown of growth, above all in the basic industries. It would appear that here the plant and employment capacities have been reached. Impulses stimulating growth, on the other hand, were provided by the manufacturing industries. Apparently, growth in this field primarily results from the utilisation of existing idle capacities: thanks to increased imports of inputs (+ 39 %) and increased domestic inputs, plant utilisation – generally at a level of 58 % in 1983 – increased in some sectors to over 80 %. In this respect, the recorded increase in the productivity of labour is more an indicator of a quantitatively than a qualitatively improved utilisation of labour. The building industry expanded by 6.9 %. Growth almost exclusively emanated from industrial building and must be seen in connection with a recovery in investment activity which markedly exceeded the plan target level. Agricultural output increased by 5.7 %, a much faster rate than during the previous year. Extremely favourable weather conditions helped bring about a record harvest, among other things for cereals (24.4 million tonnes), which means that import needs will hardly increase during the current economic year.

Investments are still not under control; they increased by 8 % instead of falling by 2.8 % as planned. At the same time, there has been no efficiency improvement whatsoever. The supply of the domestic market with consumer goods in 1984 was again pretty poor. Only in the case of 23 of the 57 consumer goods listed in the plan fulfilment report was there a noticeable increase, i.e. of more than 4 % in real terms, in supplies last year (inter alia, meat and cheese). The supply situation even deteriorated in 25 cases (inter alia, clothing, petrol and soap).

Total exports in current foreign trade prices (zloty) increased by 8.2 %. In comparison with the previous year, growth only accelerated by 0.9 percentage points. The growth of imports, on the other hand, increased by 2.5 percentage points to 10.7 % in foreign trade prices. The increased import elasticity of the national income is a problem. With a 9 % growth of imports in real terms it increased from 0.9 to 1.8 last year. Efforts to reduce the structurally induced high dependence of the Polish economy on imports on a long-term basis do not, therefore, seem to have been successful.

Hard-currency revenue from exports in 1984 increased in nominal terms by 5.3 % to \$ 5.8 billion and thus again exceeded the 1978 level. For the long-term development, however, the fact that the unfavourable export structures were reinforced last year is problematic. There was a disproportionately high

increase in exports of raw materials and fuels, even though if anything world market demand for these products developed unfavourably. Exports of hard coal to the West increased from 17.6 million tonnes in 1983 to 29 million tonnes in 1984. Any further rise in raw materials exports will be limited by the generally exhausted production possibilities. Exports of electrical and mechanical engineering products, on the other hand, fell again, this time by 2.7 %. Imports increased by 8.1 % in nominal terms (dollars) and 12.9 % in real terms. As a result of this development there was a slight drop in the export surplus from \$ 1,546 million last year to \$ 1,501 million in 1984.

With the amount of interest due estimated at approx. \$ 2,975 million, of which only approx. \$ 1,300 million were paid, the deficit on current account grew by approx. \$ 130 million to \$ 1,474 million. Nevertheless, net indebtedness fell by \$ 309 million to \$ 24.9 billion, since the effect of dollar appreciation (approx. \$ – 1,765 million) was greater than the current account deficit. Gross debts in hard currency increased according to Polish figures to \$ 26.8 billion. Poland, therefore, is the only CMEA country unable to improve its debt situation. Gross debts in transferable roubles increased by 1 billion to 4.8 billion TRbl. Two-thirds of this increase was due to the deficit in the balance of trade, which, however, was lower than in the previous year. Exports in transfer roubles increased in nominal terms by 11.1 % (real: + 5.6 %). Imports stagnated (real: – 5.2 %).

According to the 1985 Plan, produced and applied national income are to increase at the same rate (3–3.5 %), i.e. a significant increase in the export surplus is no longer planned. This, however, is still essential if the payment of interest service on hard-currency debts is to be guaranteed. As regards the imbalances in the domestic economy, the government is still faced by two unresolved problems. Firstly, there is growing pressure on the government from the various interest groups to provide resources for a whole range of desired investments. Given the lack of efficiency of the investment processes, however, this creates income and demand, but not the corresponding additional production of consumer goods. Secondly, the government is faced by the population's income demands. The attempt to bring about greater stability on the consumer goods market via price increases at the beginning of 1985 has, for the time being, failed. In some cases, price increases had to be postponed or led to an unplanned increase in nominal incomes. This results in a further increase in the inflationary excess of purchasing power.

Czechoslovakia

The Czech economic planners showed subdued satisfaction when announcing the performance for the plan year 1984. There was an overfulfilment of targets in all major sectors of the economy, with above all industry and agriculture doing much better than expected. Using the new gross method the national income recorded a growth of 3.2 %, a result which means that following the stagnation years 1980-1982 this is the second year running in which the economy has revealed accelerated growth. However, it should be pointed out here that this positive overall performance is apparently due in part to the increase in investment activity above and beyond the level laid down in the Plan. A similarly high growth rate of produced national income is expected for 1985.

The clearly faster expansion of gross industrial production of 3.9 % instead of the planned 2.9 % compared with 1983 is marked by sectoral growth rate differences which only partially result from desired structural shifts. There were above-average production increases in the fields of electrical and mechanical engineering, the cellulose and paper industry, glass, porcelain and ceramics production, and the production of sanitary facilities, i.e. both in modern branches of industry and in sectors in which domestic raw materials are processed. There were again difficulties during the last plan year with regard to the completion of nuclear power plants, which it is hoped will soon relieve the ecologically damaging and increasingly high-cost traditional energy production (brown coal). The 3.0 % increase in gross industrial production planned for 1985 is much lower than the previous year's level.

A record cereal harvest of 12 million tonnes and an extremely successful potato and sugar beet harvest resulted in an unexpectedly good year for agriculture as a whole, providing the basis for an above-target increase in production in the food industry. There were, however, substantial regional disparities with regard to the supply of meat and meat products, cheese and subtropical fruits, often accompanied by market supply problems for fruit and a number of types of vegetable. An increase in imports enabled an extension of the range of industrially produced consumer goods on offer on the domestic market, leaving a generally more favourable retail trade situation than in 1983. Further increases in the population's real consumption levels are planned for 1985 with special priority being given to the development of social consumption, i.e. to expenditure on schools, the health service and cultural facilities.

There are complaints about the inability of producers and foreign trade organisations to adjust to the changing conditions on international markets, even though in quantitative terms there was an overfulfilment of plan targets in the field of foreign trade, especially with the CMEA. Exports to western industrialised countries continue to be characterised by structural deficiencies; above all, there was a further drop in the share of machinery and industrial equipment deliveries here. With a 10 % increase in the volume of trade in 1984 the more rapid growth of trade with the East compared with trade with the West meant a further intensification of economic links with CMEA countries. The Soviet Union alone, for example, accounted for a 45.1 % share of trade; the combined share of all socialist countries in Czechoslovakia's total volume of trade in 1984 amounted to 78.3 %. A more modest increase of 4.7 % in the volume of trade with CMEA partners is planned for 1985.

On the other hand, there will be greater efforts to structurally improve the sluggish trade with the West. A 14 per cent increase in imports of machinery and industrial equipment from non-socialist countries is planned. This, together with the general trends in the country's investment policies, makes it clear that increasing efforts are being made to modernise the existing production apparatus.

Hungary

Economic performance in 1984 did not meet plan objectives in all respects in the case of the Hungarian economy. The growth of the economy as a whole and of industrial production in particular, and also the share of domestic consumption in national income were above target levels, the terms of trade worse than planned, and the growth of exports lower than target level. Nevertheless, there was a further reduction in total debts in convertible currency and the liabilities in roubles increased less than in previous years.

Altogether, compared with 1983 produced national income on a price-adjusted basis increased by 2.8-3 % and reached a value of over 800 billion forint, approx. 770 billion forint of which were allocated to domestic application – almost as much in terms of volume as in the previous year. Consumption by the population rose by just under 1 %, whereas that part of national income earmarked for accumulation purposes was 8-9 % below the previous year's level.

This stagnation of the share of domestic consumption in national income, and in particular of those parts of consumption which do not have such a great effect on

the population's standard of living, was a declared economic policy objective this year. The decline in demand for capital goods compared with the previous year must thus be viewed as the success of the austerity policies pursued in previous years.

The majority of changes in the structure of investment spending in 1984 corresponds to the expectations and plans of economic policy-makers. There was a further decrease in 1984 in the number of unfinished investment projects, expenditure for domestic machinery and industrial equipment increased, whereas demand for imported machinery again fell. The liquidity situation of many Hungarian enterprises worsened appreciably during the year; during the second part of the year the first public enterprises were forced to declare their bankruptcy, i.e. had to be closed down without being able to settle their debts in full.

The successes achieved in moving the current account into surplus will allow a slight recovery of demand for capital goods and of economic growth in Hungary during 1985. Apart from further reducing the balance of trade deficit, the emerging economic recovery is to be harnessed to bring to a standstill the drop in real incomes and in the investment ratio in Hungary.

In order to enhance the ability and readiness of Hungarian firms to respond to the "signals" of world market demand a series of regulatory economic policy measures were taken at the beginning of 1985 in anticipation of the 1986-1990 Five Year Plan. Their intention is to encourage firms to conduct their business in an efficiency-oriented manner, geared to market requirements and competition. New, centrally controlled development programmes were introduced in 1984 and 1985, which it is hoped will allow future-oriented industries such as biotechnology and microelectronics to emerge in Hungary within the context of a long-term structural adjustment policy. The national economic plan provides for investments in the socialist sector amounting to 193 billion forint.

Rumania

The data on Rumania's overall economic performance in 1984 published in this year's official plan fulfilment report probably baffled most observers. In view of the country's by no means resolved economic problems—in particular, in the energy and raw materials sectors and with regard to foreign trade—nothing suggested that Rumania would be able to reach the ambitious goals set in the 1984 Plan, let alone surpass them. With a growth rate of 7.7 % compared with the previous year the

growth of national income in real terms was 0.4 percentage points above plan target level.

This high level of overall economic growth reflects good performances in both industrial production and agriculture. Both sectors were able to increase their output share above target levels. Despite, as was officially claimed, less favourable weather conditions, record harvests meant that gross agricultural output was 13.3 % up on the previous year's level (net output: + 12 %). Industrial production, too, was much more successful than in previous years. The production of goods was 6.7 % up on the 1983 level and net production increased by 8.4 %. However, in spite of good global production, performance targets were not achieved in important industrial sectors. This particularly applies to the fuels industry: the figures for oil and coal production, 11.45 and 44.3 million tonnes respectively, were in fact lower than the levels recorded in the previous year.

As in 1983, investment in 1984 increased more strongly than originally planned; whereas the Plan had set a target of 4 % investment growth, actual growth was 6.1 %. Yet again, investment resources concentrated on the completion of projects which had already been started. Within industry special emphasis was placed on the prompt putting into operation of production capacities in the extraction industry and energy production.

Rumanian foreign trade also developed surprisingly in 1984. With the help of an again increased balance of trade surplus both in overall trade and in convertible-currency trade Rumania was indeed able, as announced, to service its debts without further reschedulings. With a real growth rate of 13.6 % the volume of foreign trade almost developed according to plan. Exports grew by 16.5 % to 228.1 billion lei, imports by 9.6 % to 160.8 billion lei. According to Rumanian statements, the balance of 67.3 billion lei corresponds to a figure of \$3.1 billion. The major part of this surplus was probably achieved in trade in convertible currency.

A surprising development was the rigorous decoupling from the International Monetary Fund effected by Rumania's economic leaders. The expectations still held at the beginning of 1984 that Rumania would continue to pursue the adjustment programme drawn up together with the IMF despite the premature expiry of the standby agreement and that it might even try to obtain further financial aid from the Fund have not been confirmed. On the contrary, Rumania has consistently reversed many important parts of the measures demanded by the IMF within the standby agreement

framework. In particular, the exchange rate of the leu, which had been continually lowered since 1981, was again raised in November 1984 by almost 25 %.

Bulgaria

For the first time in five years Bulgaria's economic growth accelerated in 1984. The 6 % increase in produced national income meant that the corresponding plan target (3.8 %) was clearly surpassed. The decisive reason for this recovery, and also for the disappointing performance during the previous year, was developments in agriculture.

Gross production in industry increased by 4.5 % in 1984, accelerating somewhat compared with the previous year (4 %) but not reaching the plan target (5 %). As usual, the highest production increases were in the mechanical engineering (9.8 %) and the chemicals industries (6 %). The Ministry for Energy and Raw Materials, set up via amalgamation in 1984, announced a production increase of only 3.1 %. In all probability, another disappointing performance in the field of coal production contributed towards the large shortfalls in energy supply during the extremely cold winter months at the beginning of 1985. Following a serious setback in the previous year (– 7.2 %) agriculture, with an increase in gross output of 6.8 %, was able to recover to a certain degree and exceeded by far the surprisingly modest plan target of 3.1 %. The growth of plant production was of decisive importance in this respect (13.9 %), revealing a very good cereal harvest of approx. 9.4 million tonnes. The increase in animal production (1.1 %), on the other hand, was mediocre. The livestock industry continues to be adversely affected by animal feed problems, the stock of cattle and pigs also probably decreased in 1984.

Among the indicators for the standard of living the nominal variables, average wage and retail sales revealed a marked acceleration in 1984 (3.3 and 4.6 % respectively), whereas real per capita income increased at roughly the same pace as in the previous year (approx. 2.5 %). A package of social policy measures adopted during the first half of the year and designed to take gradual effect by 1986 focuses on efforts to raise the birth rate. Gross investments in fixed assets probably stagnated in 1984 (as they did in the previous year); it has apparently not been possible to bring about the intended tightening-up in this sector.

As regards foreign trade, an acceleration of exports (9.7 %) and curbing of imports (6.9 %), both at current prices, meant that for the first time since 1980 Bulgaria was once again able to achieve a trade balance surplus

(171 million valuta leva). Viewed regionally, this improvement is partly due to trade with socialist countries, where there was a further reduction in the deficit (427 million valuta leva), but most of all, however, to the massive recovery of exports to developing countries, which increased by 24 % on a US-\$ basis. The Bulgarian surplus in this respect jumped to an equivalent of \$ 1.2 billion, imports growing at a relatively moderate rate (5 %). Trade with the West, where Bulgaria lost considerable market shares during the eighties, and in 1984 recorded a decline in exports (– 8 % on US-\$ basis) for the fourth year running, provides a sharp contrast. Since at the same time the import brake was also being eased (+ 1.6 %), the deficit in the balance of trade with the West again increased (converted figure: US-\$ 575 million).² The estimated hard-currency indebtedness was probably again reduced from \$ 1.7 billion (end of 1983) to \$ 1.4 billion (end of 1984), partly due to the effect of dollar appreciation.

In comparison with the provisional results for 1984, the 1985 Plan maps out a somewhat slower growth of 4.1 % for produced national income, which is to be based on an acceleration in the growth of industrial production to 5.2 % and a slowing down in the growth of agricultural output to 3.2 %. The achievement of these plan targets would mean that the current Five Year Plan, which has always been regarded as the absolutely minimum objective, would be overfulfilled for economic growth as a whole, but not quite fulfilled with regard to industry and agriculture. On the application side, the 1985 Plan foresees an investment volume of 8.65 billion leva, which corresponds to a growth rate of at most 5-8 %. Retail sales are to increase by 4.5 %, real per capita income by 3 %. This would mean that all three of the aggregates mentioned, in particular investments, would have increased at a faster pace than laid down in the Five Year Plan.

In terms of economic policy, 1985 must not only be seen against the background of the fulfilment of the current and preparation of the next Five Year Plan, but is also expected to see the elaboration of a wide range of measures designed to enable a more rapid development and translation into practice of scientific and technological advances. A meeting of the central committee held in February 1985 focused on this aspect. In an unusually critical speech, Head of State and Party Leader, Todor Zhivkov, announced further changes to the "New Economic Mechanism".

² The US-\$ figures listed here are based on Bulgarian statistics and reflect a relatively moderate official devaluation of the valuta lev against the US-\$ of 3.4 % on an annual average.