EUROPEAN UNIVERSITY INSTITUTE, FLORENCE

DEPARTMENT OF ECONOMICS

E U I W O R K I N G P A P E R No. 75

EASTERN HARD CURRENCY DEBT, 1970-83

AN OVERVIEW

by

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December 1983

This paper is part of a research project conducted within the EUI Department of Economics and directed by Prof. D.M. Nuti.

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Printed in Italy in December 1983
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1. Introduction

After the spectacular credit expansion of the last decade, the 1980's appear to be the years in which debt problems will be most acute. In 1982 the outstanding foreign debt of the Less Developed Countries (LDCs)* reached the unprecedented level of $600 bn, while early 1983 estimates indicate some $750 bn, concentrated, for more than one half, among a small number of high- and medium-income nations. According to BIS data, outstanding foreign assets of Western banks within the reporting area to LDCs rose from an already high $300 bn at the end of 1981 to some $470 bn at the end of 1982. As long as the supply of liquidity had been abundant and costs were kept low, many countries had acceded to credit markets without difficulty; often new credits would pay off the old ones. As of the early 1980's, such a mix of favourable conditions came to an end. A rising demand for credits was not matched by an equally high supply. Growing interest rates implied an immediate deterioration of the debt burden, while the debt service of dollar- and sterling-denominated loans became more costly, due to the strengthening of these two currencies. A number of countries were virtually on the verge of collapse. In mid-1982, after having _de facto_ defaulted for two years, Poland rescheduled payments on her commercial debt, deferring them until 1988. In 1982 Romania rescheduled some $2 bn of payment arrears, and a further $600 m in 1983. In the summer of 1982 some of the world's largest

* For definitions and abbreviations, see p. 32.

indebted nations - Mexico, Brazil, Argentina - declared their inability to meet debt obligations. In early 1983, reschedulings under way concerned some $45 bn of the commercial debt due between 1982 and the end of 1984. In most cases, the repayment of principal will have to be postponed until at least 1986.

The effects of the crisis were not long to be felt; Western private bankers, who had played an important part in the expansion of the Eurodollar market, became more cautious. New credits were curtailed. The fall in private loans was partially matched by the stepping up of aid from international financial institutions (multilateral aid). Bilateral aid (government-to-government loans) rose somewhat as well.

Eastern Europe is not by far the most indebted country-group. According to Western projections, by the end of 1983 the entire CMEA debt will total some $63 bn - far less than Brazil or Mexico taken alone, who account respectively for $90 bn and $80 bn. By the end of 1983 even small Chile should reach an outstanding debt of $22 bn, double that of the Soviet Union (1).

Eastern debt, however, remains high. From 1971 to 1981 it has passed from some $6 bn to $79 bn, growing in nominal terms over 13 times. Real growth, although lower, remains considerable. In the first half of the decade, Eastern debt grew on average by 46% a year (more than double the LDC's rates). In 1976 the growth rates of Eastern debt started to decline somewhat; by 1978 they had fallen below those of LDCs. Towards the end of the decade, the trend accelerated and in 1981 Eastern debt growth rates reached a modest 6.5% with respect to 1980

(16.4% for LDCs).

The recent history of Eastern debt is dominated by the credit squeeze of 1981/82. The squeeze was caused by the Polish financial crisis which led to the reschedulings of 1982. Western credit intermediaries became more cautious, and borrowing became more and more difficult, particularly in the medium- and long-term syndicated market. Romania's payment difficulties virtually excluded Eastern nations from syndicated loans, as commercial credits dried up. Bankers, fearing potential reschedulings, reduced their exposure to these countries and cut interbank deposits to an extent that was very close to generating a liquidity crisis.

In the following pages we shall analyse Eastern foreign debt, the causes of its massive growth, its evolution against the background of international financial movements, its recent trends and the prospects for the near future. The period covered in this paper is divided into three parts: 1971-75 (Section 2), 1976-80 (Section 3) and 1981-82 (Section 5). During 1971-75 - the years of détente - East-West trade and financial flows underwent a most rapid expansion, as a new era seemed to be opened in East-West relations. With the end of détente, however, the interdependence of the two blocs was reduced : starting in 1976 the growth rates of both trade flows and foreign debt declined. In 1981-82, due to internal mismanagement as well as exogenous factors, the economic crisis exploded in the East, affecting, to a different extent, virtually all CMEA nations (with the possible exception of the Soviet Union). In turn, the conditions prevailing on international financial markets (Section 4) hardened. The fall in OPEC countries' surpluses curtailed the funds flowing to the Euro-currency markets, which had until then fuelled the recycling process; the supply of international liquidity fell, while world interests soared, causing the debt burdens of heavily indebted nations to worsen rapidly. Section 5 deals with the years that followed the economic crisis of 1981-82; particular attention is devoted to the effects of the credit squeeze on Eastern nations and to the adjustment measures that were adopted in response to it. This credit squeeze appears to have been harder than was warranted by their underlying disequilibrium. Section 6 analyses some of the aspects of the curtailment of Western credits to CMEA countries and presents some conclusions.

2. 1971-75 : Eastern Foreign Debt Builds Up

Unlike most LDCs, Eastern Europe's debt was not caused by oil deficits. Taken as a whole, in fact, the CMEA region is a net oil exporter, and, according to Western estimates, is likely to remain such until at least 1990 [(2)]. The six smaller countries are oil importers but, with the exception of Romania, purchase some 90% of their imports from the Soviet Union at special CMEA prices, based on a moving average of the world oil prices in the preceding five years. Only above-the-plan-deliveries (in the case of Romania, the entire bulk of oil imports) are paid at current world prices.

If Eastern debt was not a direct result of oil deficits, the question remains open as to what led to it. The point requires a digression. For the CMEA group, the 1970's represented the second decade in a row of declining growth rates. According to Eastern calculations, in the 1960's growth rates had fallen by some 2 points percent, reaching 7% (4% by Western calculations) [(3)]. Both rates may appear high by Western standards, but represented a setback for Socialist nations, which were used to much higher rates. With the exception of Hungary, the economic reforms of the sixties had proved to be a failure. The system of administrative prices, of yearly targets and bonuses remained untouched. The centralised allocation of inputs, coupled with the principle of taut planning, pushed enterprises to disregard the quality of output. The bonus system discouraged the introduction of new technology as in the short run it disrupted production, leading to a possible loss of bonuses. The R&D organisations worked in virtual isolation from production units, developing projects which were of little use for practical applications; more often still, the innovations did not even reach production units. CMEA nations appeared unable to generate the modern, efficient technology they needed. The passage from an extensive scheme of development, based on a massive immission of resources into production, to an intensive one, that envisaged a more efficient exploitation of the existing resources, was far from being achieved. In the meantime, labour and natural resources were approaching exhaustion. Stepping up high technology imports from the West must have appeared to CMEA planners as a rapid and expedient way to improve economic performance. According to a Western interpretation, it was a necessary choice, if more radical reforms at home were to be avoided. To a certain extent, imports covered consumption goods as well, and helped raise Eastern living standards.

Trade flows from the advanced Western nations, which had traditionally accounted for a modest share of CMEA overall commerce, rose, passing from 29% in 1970 to 34% in 1975, when they reached a peak-value. By contrast, intra-CMEA flows shrank from their 1970 level - 60% of total Eastern commerce - to 30% in 1975.[4] At least initially, trade flows from the West concerned essentially investment goods. Later on, they included production goods and, to some extent, food and raw materials, as the Soviet Union reduced oil sales to Romania and grain and foodstuff sales to Poland and Czechoslovakia. In turn, Eastern exports on Western markets lagged behind imports, due to low competitiveness. Output quality was poor, while most of the six smaller nations lacked the raw materials their Western partners were seeking. Thus, despite efforts to balance trade flows, the commercial deficits of the six smaller CMEA nations with the advanced West rose on average by 83% a year during 1971-75 (see Table 3). The Soviet Union, on the contrary, being a large exporter of raw materials, managed to keep her trade performance altogether more balanced. After a small surplus in 1974, a peak deficit of $5 bn was reached in 1975, but was soon eliminated.

Trade imbalances were financed with foreign credits. Nominal debt, including that of CMEA banks, rose from $6 bn in 1971 to $29 bn in 1975 (see Table 5). Foreign debt grew fastest in Poland, where domestic development plans, pushing for a "dash for growth" envisaged massive imports and finance from the West. Polish debt passed from a modest $800 mn in 1971, ranking fourth place in the CMEA region, to $7.4 bn in 1975, second only to the Soviet Union, who totalled a slightly higher $7.5 bn debt. The GDR and Romania followed, with respectively $3.5 and $2.5 bn.

The massive debt of Eastern nations vis-à-vis the West was a completely new phenomenon. As Portes put it :

> "... as recently as 1970, say, it would have taken remarkable prescience to suggest that Eastern Europe would be willing to borrow from the West - and the West willing to lend to the East - a sum on the order of magnitude of $46 bn" (5).

Undoubtedly, Eastern needs for foreign finance were met by favourable conditions on Western markets. Following the OPEC oil price rises of the early 1970's, oil-exporting nations deposited their current account surpluses in European banks. Western financial operators, facing a period of deep recession at home, competed aggressively for business abroad. Thanks to its largely unregulated and flexible mechanism, the private banking system absorbed a large share of the demand. Competition among bankers led to years of low credit costs (spreads and front-end fees), and to long maturities and grace periods. Interest rates started falling in 1975 (see Table 13). Throughout these years it was demand rather than supply which determined the size of the market.

Eastern nations, with their immaculate record of low debt, punctual repayments and sound debt management, found easy access to Western banks' loans. By 1975, commercial banks' loans accounted for over 60% of CMEA gross total debt. Eastern net liabilities more than doubled, passing from $7 bn in 1974 to $15 bn in 1975 (see Table 8). Gross liabilities were even higher ($22 bn) as Eastern nations took advantage of the favourable conditions prevailing on Western markets to build up a considerable amount of reserves ($7 bn during 1974-75). Short-term loans were predominant. By 1975 official and officially guaranteed export credits had shrunk to a modest 16% of CMEA gross total debt - in 1971 alone they had accounted for some 40% (see Table 10). Official credits have a more favourable maturity structure and bear lower costs than private ones, but are supply-determined and are tied to particular deals with the lending nations (usually involving the financing of machinery imports or large-scale investments). Private loans, instead, may be used to finance any payments imbalances, or to purchase anything (raw materials and consumption goods), from any trade partner. Besides, they imply no conditionality or political concessions.

3. 1976-80 : The Years of Decline

From 1976 to 1981 the net debt of Eastern nations (excluding the CMEA banks) rose by more than 100%, passing from $35 to $74 bn. Gross debt reached some $88 bn, as Eastern nations continued to build reserves. However, after the peak-values of the first half of the 1970's, the growth rates of CMEA hard-currency debt started to decline; by 1980 they had reached about one half of their 1976 levels. In the early 1980's the fall was even more marked. With the possible exception of Poland, the slowdown was essentially demand-determined, following the application of internal adjustment measures undertaken by Eastern nations. On the supply side, the Euromarket was still liquid, as oil prices continued to rise. On the whole, the majority of CMEA nations maintained a good credit rating among Western operators.

In general, the second half of the 1970's was characterised by a tendency of Eastern nations to correct their balance of payments performance with the advanced West. The trade deficits with Western nations dropped from $10 bn in 1976 to $3 bn in 1980. Great part of the reduction was accounted for by the Soviet Union, who, during 1976-81, benefitted from a 50% rise of her terms of trade with the advanced Western nations (see Table 7). (Soviet exports to the West have a higher energy content than imports). In 1980, the Soviet balance of trade with the West recorded a small surplus of $200 m.

In 1979 Soviet trade balances with LDCs turned to the positive range. Surpluses reached some $3 bn in 1980, a good share of which was settled in hard currency (6).

The trade performance of the six smaller CMEA nations was less successful. Despite their efforts, imports from the West continued to rise. The Five-Year Plans covering the 1975-80 quinquennium envisaged a cutback on the growth rates of imports, in order to reduce trade deficits and slow the growth of foreign debt. An excessive reduction of imports, however, could action a "bottle neck multiplier", which would cut production, hence the supply of exports and then again of imports, etc. Besides, to some extent Eastern imports included also food and consumption goods, which were essential to maintain consumers' standards of living, whereby avoiding outright discontent. Due to economic recession in the West, exports of the six remained sluggish, while rising Western protectionism - essentially EEC

(European Economic Community) trade barriers on agricultural products damaged many traditional exports of Romania, Bulgaria and Hungary. The terms of trade of the six smaller nations with the advanced West deteriorated as the prices of their exports (essentially, manufactures) remained stagnant (see Table 7). Moreover, trade balances of the six with the developing market economies remained in the negative range until the 1980's.

CMEA balance of payments performance vis-à-vis the advanced Western nations continued to deteriorate (see Table 6). Since 1979, due to the accumulation of the debt and to the rise of commercial interest rates (7), the volume of interest payments had overtaken that of trade deficits; in 1981, it was more than double the trade gap. The possibilities of Eastern nations to reduce their external exposure by correcting trade imbalances was hindered; to a large extent foreign debt became a self-alimenting phenomenon.

Western BIS-reporting banks still accounted for the largest share of Eastern debt. From 1976 to 1981, commercial credits to Eastern Europe more than doubled. In 1979 Eastern deposits with Western banks reached the peak value of $15.5 bn, more than half of which ($9 bn) was accounted for by the Soviet Union. In 1980 Eastern deposits remained grossly constant, while a $1 bn decline was registered in 1981, when many Eastern nations drew down on their foreign deposits to compensate for the lower availability of credit.

Official Western export credits were easily available and most CMEA countries stepped up their recourse to them. The largest share was absorbed by the Soviet Union, traditionally a large taker of official credits, followed by Poland and, at a distance, by East Germany and Romania.

As of 1977, Poland totalled the largest foreign net debt in the CMEA group. During 1976-80, due to heavy use of financial credits, most of which were short-term, the maturity structure of the Polish debt worsened; medium- and long-term Eurocredits constituted a minor 2.5% of Poland's net debt. Creditworthiness on Western markets was somewhat offuscated, as Polish officials admitted that they were having problems in obtaining large-scale Euromarket credits because of their past heavy borrowing (8). The cost-end fees and spreads applied to Poland were higher than those of the other CMEA nations. In 1979, spreads over LIBOR (the London Interbank Offered Rate) on syndicated loans ranged between 0.5% and 0.75% for all Eastern nations, and between 0.75 and 1.375% for Poland. Polish recourse to official credits was high, but essentially covered commodity imports (steel, chemicals, grain), for which terms were considerably shorter than on credits for machinery imports.

With the exception of the Soviet Union, the debt burdens rose for all CMEA countries. The debt-service ratios, that reflect the hard currency export earnings absorbed by the debt service of medium- and long-term debts are shown in Table 15 (9). After the low levels of the early 1970's, the ratios deteriorated rapidly in Poland, passing from 30% in 1975 to 107% in 1980, followed by Romania (38%), East Germany (36%) and Bulgaria (30%). Adjustment has been particularly successful in the last two nations, whose ratios were down, respectively, from 54 and 38% in 1979.

Debt-service ratios reflect only the payments on medium- and long-term debts, and are based on the assumption that Eastern nations would have no difficulty in rolling over the short-term debt. It has been noted, instead, that in case of payment difficulties, Eastern nations would face "great risks.... since short-term debt would dry up very rapidly and they would probably face a payments moratorium" (10). Debt-service ratios, on the contrary, include the short-term debt; they relate total net debt to hard currency merchandise exports. Eastern debt-export ratios reflect the sheer size of CMEA nations' indebtedness. By 1980, Poland had by far the heaviest debt burden, as her net debt was over three times hard currency earnings. Hungary came second, with a debt nearly double her exports, followed by East Germany and by Romania, where debt was one third higher than exports. Bulgaria, Czechoslovakia and the Soviet Union, whose debts did not exceed substantially exports, remained at the bottom.

4. The Crisis Matures

The debt crisis in Eastern Europe was determined by a mix of both domestic and international factors.

In general, a debt problem arises when a nation incurs into debt to an extent that is too high with respect to its future capacity of servicing it, given the time pattern of access to liquidity (11). In particular, it has been proved that for a given rate of debt amortization (which depends on contractual conventions and the duration of loans), unless foreign credits keep growing at a rate higher than the interest rate by a critical amount, a liquidity crisis inevitably arises.

If this is the case, then the service of the debt becomes a two-gap problem, requiring that domestic savings exceed imports by enough to cover interest payments and the repayment of principal (12). In other terms, income produced must be higher than the income absorbed by internal demand. Imbalances may be corrected by reducing domestic demand and/or by improving the balance of payments performance, i.e. by cutting imports and/or by diverting resources from internal use to export. Eventually, however, the fall in the absorption capacity will lead to a reduction of income produced, which in turn endangers the future capacity of servicing the debt (13).

In the case of Eastern nations, the focus is on the export side. Successful debt management requires that the economy is able to transform the borrowed resources into exportables or import substitutes. Moreover, no constraint should be faced to transform the resources freed by lower domestic absorption into exports - which was not the case of Eastern nations in the 1970's. Eastern imports from the West concerned essentially raw materials and high technology machinery, which have a relatively rigid demand and are difficult to cut back. The reduction of Western imports, in fact, hurt Eastern economies; the drop of output growth rates, which had been declining since the early 1970's, further accelerated in the 1980's. Polish output fell by some 12% in 1982.

Since the late 1970's, the situation on international financial markets had started to deteriorate, as the availability of funds on the Euromarket had started to decline.

A decade of low interest rates had curtailed Western banks' capacity of accumulating capital, and most bankers faced modest capital-assets ratios. Moreover, the growing concentration of credit flows among a relatively small group of countries had stepped up the exposure of Western bankers to portfolio risks. The financial crisis of Poland - and soon after that of Romania - originated a chain-effect which is still operating. Fearing future reschedulings, Western bankers reduced their inter-bank lines on Eastern banks [(14)]. In the most critical moments of 1981, Poland's Foreign Trade Bank, Bank Handlowy, lost some $500 m in a few weeks. In the first quarter of 1982, Hungary lamented the sudden withdrawal of some $1 bn deposits and had to hastily arrange for additional credits [(15)].

The OPEC oil price fall, coupled with the imposition of production quotas on member-countries, curtailed the current account surpluses of oil-exporting nations by some $45 bn in 1981 and a further $45 bn in 1982. In 1983 the cut is expected to be even greater, totalling some $70 bn [(16)]. From 1981 to 1982, the deposits of oil-exporting nations on Western banks were down by over $20 bn. In the first three months of 1983, they fell by a further $9 bn. The growth rate of international commercial banks' loans fell from 19% in 1980 to under 9% in 1982.

In early 1980, the US administration - as the British one had done a year earlier - committed itself whole-heartedly and successfully to fight domestic inflation. As a result, American interest rates soared, passing from 8% in 1978 to 14% in 1981. In 1982 they fell by some 3 points, reaching 11%. The London

Interbank rate (LIBOR), which generally rules the interest rates on medium- and long-term Eurocredits, reached some 17% in 1980 and then fell around 10% in mid-1983. By the beginning of 1982, the decline had become general, bringing some relief to the debt burdens of indebted nations : it has been calculated that for every 1% decline of Eurocurrency interest rates, Eastern nations save some $500 m of interest payments (17). Interest rates, however, remain high in real terms - in 1982, for instance, inflation in the US averaged a yearly 6%. The falling inflation rates on Western markets implied an unexpected rise of the debt levels in real terms (many nations had incurred in foreign debts in the second half of the 1970's, when world inflation appeared likely to continue to rise). Moreover, the strengthening of the dollar on international markets made imports more expensive, to the extent that purchases were denominated in dollars.

TABLE 13

Average Interest Rate on Inter-Bank Deposits Reflecting a Basket of Euro-currencies

1973	1974	1975	1976	1977	1978	1979	1980	1981
7.8	11.1	6.2	5.4	5.6	6.2	8.5	11.1	13.9

1982-A1	1982-A2	1982-A3
12.4	12.1	10.2

Source: U.N. Ec. Bulletin for Europe (1983)

5. 1980-82 : the Credit Squeeze

Eastern nations were strongly affected by the international credit squeeze.

According to Wharton Econometrics' estimates (shown in Table 5b) [(18)], total net debt grew by 5.6% in 1982 with respect to 1981, and then fell to $61 bn (minus 7.6%) in 1982 - the lowest level since 1980. In 1983 it should rise to $63 bn, due to heavy borrowing on behalf of the Soviet Union, who should regain her 1981 level - $11 bn. For the other six CMEA nations, the overall net debt fell by $2 bn in 1982 and should fall by a further $1 bn in 1983, reaching $52 bn. The highest reductions should be those of East Germany (minus $900 m) and Romania (minus $700 m) - Romania had already recorded a $900 m reduction in 1982.

The only cases in Eastern Europe where the lower use of foreign debt appears to have been motivated by lower needs were Bulgaria, the Soviet Union and, possibly, Czechoslovakia. For the remaining Eastern nations, we assume that the debt reductions of the 1980's were essentially determined by factors pertaining to the supply side, i.e. by a fall in the availability of new credits for Eastern nations [(19)].

In 1981, the exports of the six smaller CMEA nations to the advanced West fell in absolute terms by some $3 bn with respect to 1980, and stagnated in 1982. The decline was in large part due to the Polish internal crisis, that curtailed her deliveries and shipments abroad by almost one half, bringing them down to their lowest level since 1976.

Exports to the West fell also for the other Eastern nations, due to low demand on foreign markets. Eastern imports from the advanced West rose until 1980 and then declined by $3 bn in 1981. In 1982 the fall was even bigger, as most Eastern governments undertook strict adjustment measures. Reportedly, the first to be reduced were the imports of investment goods, while, at least initially, an effort was made to maintain food and production goods imports. This precaution, however, was soon abandoned, as the adjustment concerned all types of imports (on this point, see section 6). The largest reductions were accounted for by Poland and by Romania, who cut their imports from the West by more than one half in two years (respectively, by $3.6 bn and by $2.1 bn). In 1982 the six smaller CMEA nations registered a small but significant surplus of some $2 bn in their trade balances with the advanced West. Western observers, however, believe that such strict adjustment policies may have damaged the absorption capacity of Eastern nations. This was the case of Poland and, possibly, also of Czechoslovakia and Romania.

The Soviet trade balances with the advanced Western nations were negative both in 1981 and in 1982, due to low Western demand. (The Western embargo on Soviet exports, undertaken in retaliation for the Soviet invasion of Afganistan, appears to have had only a rather marginal effect on Soviet exports). In 1982, in spite of a weak demand for oil on Western markets, Soviet exports to the West grew by an estimated 8.7%. Western press reports foresee a further increase for 1983, when the Soviet trade balance with the West should become positive.

Trade balances of the CMEA nations with the developing market economies became positive in the early 1980's. In 1981 the six smaller CMEA nations recorded a surplus of some $4 bn for the first time since 1970. The latter was essentially due to a reduction of Eastern imports from the developing nations; Eastern exports fell in absolute terms by some $6 m in 1982 with respect to 1981. The decline was probably due to the fall of OPEC oil prices, which curtailed the demand of many of Eastern Europe's traditional Third World partners - Lybia, Iran, Iraq, the Middle East.

The Soviet trade balances with developing nations, which had become positive in 1979, declined somewhat in the 1980's, due to massive grain imports from Argentina. Export performance, however, was successful, as the economic and financial crisis of many Latin American, South African and East Asian nations did not affect the traditional trade partners of the Soviet Union (India, for instance). Moreover, Soviet exports to the developing nations may be understated, as they do not include data on arms sales, which, according to Western observers, should be high. In the near future, Soviet imports from the developing nations should decline somewhat, as US grain supplies are picking up.

Intra-CMEA trade flows stepped up. According to Soviet Premier Tikhonov, in 1981 they had reached 55% of the total commerce of CMEA member countries [20]. In 1980-81 the massive Soviet shipments to Poland led to a deficit of the six smaller nations (Soviet surplus) of some $1.4 bn. In 1982 the deficit is supposed to have declined by $250 m [21]. In 1981-82, the terms of trade of the six smaller nations (with the exception of Romania) vis-à-vis the Soviet Union fell rapidly, as the

OPEC price rises of 1979-80 began affecting CMEA prices. The price of Soviet oil rose by some 25% in 1981 and an additional 26-27% in 1982. Prices of East European exports to the Soviet Union - manufactures, coal (from Poland) - increased by 7% in 1981 and by another 5% in 1982, while the prices of imports from the Soviet Union increased by 15% in 1981 and an additional 13% in 1982[22]. According to Eastern estimates [23], the terms of trade of the six should continue to fall during 1983-85, as the prices of Eastern imports from the Soviet Union are expected to rise by some 6% a year, against a yearly rise of export prices of some 4%. CMEA oil prices should rise by 13% a year. The effect of the deterioration of Eastern terms of trade has been analysed by Vanous, who calculated the intra-CMEA trade balances at constant 1980 roubles[24]. According to these estimates, Eastern deficits remained grossly constant in 1980 and in 1981, while the six registered a small surplus in 1982.

For the CMEA group as a whole, current account deficits vis-à-vis Western advanced nations declined somewhat in the first half of 1982, due to the improvement of their trade performance. For the six smaller nations interest payments represented by far the biggest component in the aggregate current account balance. Interest payments rose by approximately \$1 bn in 1981, and appear likely to have risen further in 1982 as the sheer size of Eastern debt counterbalanced the decline of interest rates. Due to its comparatively low recourse to external debt, Soviet interest payments were small (\$1 bn in 1980, \$1.8 bn in 1981), and appear to have declined in early 1982. In 1980 the Soviet Union actually achieved a surplus in the balance of invisibles of some \$200 m, and a current account surplus of some \$400 m.

In 1982, for most CMEA nations, net debt fell or remained constant with respect to 1980. The largest reductions were registered by the Soviet Union (less $3 bn) and by East Germany (less $2 bn). Poland's debt, on the contrary, rose by $1 bn. The latter, however, may hardly be considered a creation of new funds, in view of the capitalization of overdue interest. In 1983, apart from further Polish reschedulings, no new credit is forecast, except for the Soviet Union, who is expected to borrow some $3 bn.

CMEA net liabilities with Western commercial banks reached a peak-value of $46 bn in 1981, after which they fell to $37 bn in 1982, as Eastern countries experimented a very tight credit squeeze on Western markets. Two-thirds of the 1982 decline was accounted for by the six smaller nations. The largest reductions were registered in Poland, where net liabilities fell by $1.6 bn, followed by East Germany (less $1.4 bn) and by Hungary ($1 bn). The decline of CMEA gross liabilities was somewhat lower ($7 bn), as Eastern bankers incremented their hard currency deposits with Western banks which, specially for the six smaller countries, had reached rather low levels in the early 1980's. In respect of end-1981, deposits rose by $1.6 bn for the Soviet Union, by $200 m for Poland and by $100 m for Bulgaria; they declined slightly for the other countries. East Germany drew down on her deposits in the first half of 1982, but managed to increment them somewhat in the second half of the year. Great part of the decline of Eastern net liabilities took place at the expense of short-term liabilities ("up to and including one year", in the BIS definition). The percentage of CMEA short-term loans passed from 42% of total commercial debt in 1981, to 38.5% in 1982 (Table 11). Conversely, the share of long-term liabilities, including loans over two years, passed from 33% in 1981 to 37% in 1982, determining an improvement of Eastern debt's time-profile. By far the largest shift to long-term credits was that of Romania, who passed from $1.4 bn in 1981 to $4.3 bn in 1982. In 1982, both the Soviet Union and Poland reduced their short-term liabilities with respect to 1980, while leaving long-term liabilities grossly constant.

The volume of syndicated medium-term bank credits (25) is reflected in the BIS data to the extent that the banks participating in the syndication are in the BIS-reporting area. However, information on syndications is a useful indicator of recent commercial borrowing. From 1979, syndicated bank credits to Eastern nations (Table 9) have been falling by some 50% a year, passing from $47 bn in 1979 to $7 bn in 1982, the lowest level since 1973. Bulgaria has practically withdrawn from the market since 1980, probably due to lower credit needs. For opposite reasons, Poland has been squeezed out of the market since 1981, together with Czechoslovakia - the latter, however, is believed to have kept a relatively good credit rating among Western bankers. Romania followed in 1982. By the end of 1982 East Germany's access to syndicated loans amounted to a negligible $690 m. The only country which managed to keep medium-term credits in line with earlier levels was Hungary, thanks to her able bankers. In 1982, with $5 bn of syndicated loans, she accounted for more than half of Eastern Europe's medium-term credits. Borrowing costs rose during 1981, making syndicated loans less attractive.

Undisbursed credit commitments reflect the credits which have been negotiated with commercial banks for future use; they indicate the amount of credit that the borrower can dispose of without further applications. The value of undisbursed credit commitments is often used as an indicator of a borrower's ability to obtain new loans. The recent evolution of Eastern credit commitments (Table 12) is consistent with the stiffening of Western markets. The volume of Eastern total undisbursed commitments (including the USSR) fell in 1982 to its lowest level since 1978. The biggest reductions were those of Poland (minus $1 bn during 1981/82), followed by Bulgaria, Romania and Eastern Germany. Credit commitments rose slightly in Hungary and in Czechoslovakia. The Soviet Union, who had reduced her undisbursed credit commitments in 1979 and in 1980, managed to raise them by a substantial $2 bn in 1982.

Eastern nations' use of official and officially guaranteed credits continued to rise. In 1981, the Soviet Union stepped up her official credits by some $300 m; the largest rise, however, was accounted for by Poland (plus $1.4 bn). The share of official credits in Poland's gross hard currency debt passed from 23% in 1980 to 29% in 1981.

In more recent times, however, Western credit insurance agencies may have limited their supply of loans to CMEA nations, given the record claims they were facing on past credits extended to certain LDCs and to Poland. Following the Romanian payment arrears, the government of West Germany stopped granting guarantees for business with that country, while Switzerland, having experimented losses in Iran, cancelled Poland from the list of countries eligible for export guarantees. Japanese and British agents also appear to have removed insurance from (or restricted credits to) a number of countries, including Poland and Romania. Furthermore, Western governments may be unwilling to extend credits to foreign nations, due to their own public sector borrowing needs. Official credits may also be limited by Eastern demand, given that most CMEA nations - except for the Soviet Union - are curbing investment projects - the latter being financed principally by means of official credits. In turn, great part of the official credits to the Soviet Union appears to be tied to the Urengoi gas pipeline project.

In late 1981 the OECD member countries of the so-called "consensus" group [26] raised their interest rates on official credits to 10.0 / 12.4%, in order to keep them in line with those prevailing on the Euromarket. The Soviet Union, Czechoslovakia and East Germany were transferred to the "relatively rich" group, for which the minimum applicable rates are 12.15/ 12.4%. The other CMEA nations fall in the "intermediate" group, for which the rates are : 10.85 / 11.35%.

The intra-German "swing credit" facility was extended until the end of 1985, but will undergo a gradual reduction from its original level of DM 850 m per year. On 1 January 1983, it was brought down to DM 770 m; in 1984 it will reach DM 690 m, and DM 600 m in 1985 [27]. In the summer of 1983, the West German government announced that it would guarantee an unprecedented commercial bank loan to East Germany of DM 1 bn, equal to $388 m [28].

Unlike many LDCs, Eastern nations have not issued external bonds to a great extent. Past offerings have been limited to only two nations : Hungary and Poland (see Table 14). In the future a stepping up of this source of financing could be forecast, as Eastern integration in the international financial system grows. On the other hand, the general credit squeeze experimented by Eastern nations in recent years may reduce Western willingness to purchase eventual Eastern bond issues.

Multilateral aid - i.e. loans from international financial institutions, like the International Monetary Fund (IMF), the World Bank and related institutions, is limited to the two member countries - Romania (a member since 1972) and Hungary, who joined the IMF ten years later, in May 1982. Poland applied for membership in mid-1982 and its acceptance is still underway. Romania has benefitted from multilateral aid since 1975 (see Table 17). In 1981 she recorded a total debt of $1.7 bn, but since then no new credit facility has been announced. In 1982 Hungary, a fresh IMF member, obtained a stand-by credit of some $500 m (SDR 475 m). Gold sales by the Soviet Union rose sharply in 1981, reaching a level of some 300 tons, valued at around $4 bn. Further sales of some 50/80 tons took place in the first quarter of 1982, as the Soviets attempted to counterbalance the continuing fall of gold prices.

Gold Sales by the Soviet Union — Table 18

	1974	1975	1976	1977	1978	1979	1980	1981	1982 [a]
Volume (metric tons)	150	150	350	450	450	290	90	300	50-80
Value ($ bn)	0.6	0.6	1.4	1.8	3.0	2.8 [b]	1.8 [b]	4.0 [b]	0.6-1.0 [b]

Source: United Nations, Economic Bulletin for Europe, 1982, vol. 34, n.4.

a : 1st quarter

b : Estimated, using London prices for 1979-82.

The consideration of the debt-service and the debt-export ratios does not add much to what has already been said. Since 1980, the situation of Poland, Bulgaria, East Germany and the Soviet Union appears to have improved. In particular, Poland managed to reduce the debt-service ratio by almost one half in 1981/83, thanks to the fall of interest rates. The reduction of the Polish debt-service ratio, however, reflects also her lower payments due to payment arrears. The Polish debt-export ratio (see Table 16) remained high and rose further in the early 1980's, testifying to the maintenance of a high level of foreign debt. Romania has rather high rates as of 1980, but a slight improvement is expected for 1983. The Soviet Union and Bulgaria present the lowest levels among Eastern nations for both ratios.

6. Conclusions

Contrary to the widespread view according to which CMEA nations are on the verge of bankruptcy, the picture outlined in Section 5 points out that Eastern Europe is not in a bad shape economically. Regardless of how precarious the situation may have been in the late 1970's, when most of the debt matured simultaneously, by now Eastern nations have gone a long way into adjusting their imbalances.

The nature and extent of the adjustment has been analysed by Vaňous, who has estimated the growth rates of income produced and income used (that is, respectively, of the net material product and of the demand for consumption and investment goods in Eastern nations over 1971-75, 1976-80 and in 1981 and 1982). In 1981 and in 1982, the growth rates for both income produced and income used fell below the levels of 1976-80 and, even more, below those of 1971-75. Growth rates for income produced, however, fell less than those for income used as "the share of national income produced devoted to a reduction of external indebtedness steadily increased during 1981-83"[29]. Vanous analyses the adjustment process by splitting income used into its two components : consumption and investment. In 1981 all Eastern nations - except Poland - managed to maintain the growth rates of consumption around the average level of 1976/80 (which were already lower than those prevailing in 1971-75). On the other hand, the growth rates of the investment fund fell drastically in all Eastern Europe (with the exception of Bulgaria). In 1982, the hardest year of adjustment, the growth rates of consumption fell together with, though not as fast as, those of investment, as the reduction of domestic absorption took place essentially at the expense of investments. The adjustment (as we have seen in Section 4) also involved reducing the gap on the side of hard currency trade balances. CMEA exports to the West recovered in 1982, while imports had been cut as of 1981[30].

The current financial crisis of many LDCs has put the problem of Eastern debt in a new perspective, and has opened a number of questions. In the first place, there is the problem of the attitude of Western lenders vis-à-vis Eastern nations, on the one side, and other market economies on the other. The credit squeeze has affected indebted nations in different ways. Despite credit to Eastern nations being curtailed, loans continued to flow to other heavily indebted nations, particularly to Latin America, even after the summer of 1982, when it was quite clear that debts had accumulated well beyond future repayment capacity. According to Western estimates, many Latin American nations will require additional loans in the order of billions of dollars even only to meet interest payments in 1983 and in 1984 [(31)]. Eastern nations, instead - possibly also Poland [(32)] - need only refinancing and "rolling over" of their present debt. Moreover, Latin American nations are only now starting to undertake those adjustment measures that Eastern countries had adopted back in 1981-82.

The problem is then posed as to what are the factors that determine this disparity among lending to LDC s or to CMEA nations in the eyes of Western credit agents. One possible difference is that Eastern nations are generally not members of international financial organisations and therefore are not eligible for the low-cost bridging loans that in the short run sustain many economies facing balance-of-payments difficulties. At present, only Romania and Hungary are IMF members, but then, one gathers the impression that membership for a centrally planned economy is somewhat different than for a market economy. In other words, could we "envisage Fund missions to Warsaw, Budapest, or Sofia, prescribing stabilization plans?" [(33)]. To be sure, the times in which the Soviet Union could oblige its CMEA partners to resign from their membership to international organisations are far behind. However, although Moscow may be happy to see her partners receive loans on favourable terms, nevertheless she still tends to consider international organisations as "agents of capitalism" [34]. This makes it unlikely that an IMF-agreed package of adjustment measures may be adopted in a CMEA nations without the close supervision and the consensus of the Soviet Union.

Indeed, IMF membership may prove to be a crucial issue in the near future. At the end of 1982, due to the fall in their surpluses, OPEC nations started reducing their flows to the Euromarket (OPEC nations' deposits on BIS-reporting banks were down by $7 bn in the first trimester of 1982). On the other hand, surpluses rose - or, at any rate, deficits fell - for those oil-importing countries, essentially industrialised ones, that were ready to benefit from the opportunity to curb their current account expenditures. It appears unlikely that these countries will release substantial parts of the newly gained (or regained) surpluses to finance the recycling process on the Euromarkets. Western nations, in fact, have high absorptive systems - higher, at any rate, than those of OPEC countries in the mid-1970's. Domestic absorption, moreover, appears likely to be stepped up by the recovery actually under way in the West.

In the near future, international financial organisations, principally the IMF, the World Bank and related organisations, will probably be called upon to act as major agents in the recycling process. Meanwhile, the IMF has expanded its lending activities, as total commitments passed from $9 bn in 1980 to $15 bn in 1981. Pressure has been mounting to increase the IMF's primary source of funds, country-member quotas, the real value of which had been curtailed by world inflation in the 1970's. In 1983 alone, two quota revisions should take place : one, amounting to some $32 bn, has already been completed; the other is still under way. Proposals have been advanced to widen the range of IMF intervention policies, in order to include longer-run lending at concessional terms. It has been suggested that the IMF may arbitrage conflicts between creditors and debtor countries, guaranteeing the interests of the exposed banks by defining and monitoring the implementation of adjustment policies in the debtor nations.

Moreover, we put forward the hypothesis that there may exist to some extent a sort of "virtuous circle" whereby, after the panic, the confusion and the uncertainty experimented in 1981 and 1982, the IMF is gradually assuming in the eyes of lenders the role of an international guarantor. Western credit agents, in other words, may feel encouraged to concede credit once an adjustment package has been agreed upon, and is being implemented under the supervision of the IMF. If this is the case, Eastern Europe is excluded from the benefits of this "virtuous circle".

Until not long ago, a "theory" circulated among Western businessmen, according to which Eastern countries were protected by the "umbrella" of the Soviet Union's economic potential. Debt default was therefore considered unlikely, as a Soviet top-priority aim was believed to be that of avoiding at any cost that the international prestige and creditworthiness of a Socialist nation should be damaged. The Polish and Romanian debt crises, which took place without any outright rescue on behalf of the Soviet Union, have somewhat discredited this theory; by now most Western businessmen believe that the six smaller CMEA nations are without a supernational guarantor.

In the near future, we see no tendency towards a major revival of international lending to Eastern nations, especially to the six smaller ones. Eventually, when the world demand for oil and oil prices will have risen, financial markets will recover and so will the eastward money flows. Meanwhile, Eastern Europe faces a period of protracted economic recession, with falling - sometimes even negative - growth rates. In more than one case - Poland, but possibly also Czechoslovakia and Romania - adjustment measures have reduced the absorptive capacity of the systems, while the fall of Western imports may have given life to a "bottleneck multiplier" (35), whereby a fall of imports implies a reduction of output,and hence of the supply of goods for export, and then again of imports, and so on, amplifying the initial shocks. Poland, which alone accounts for half of Eastern net debt, is seeking a rescheduling with Western bankers for her 1983-85 debts. Romania is negotiating delayed payments on debts due this year, while next year's payments are uncertain. Adjustment measures, however, are having their effect even in these two nations. Poland's slight surplus with non-socialist nations in 1982 will probably be maintained, indeed increased, in 1983, while her performance with the other CMEA partners may have been much more successful than what appears, if due account is taken of her falling terms of trade with the Soviet Union. Like all heavily indebted nations, Poland stands to benefit from the falling interest rates, and she may receive new impetus if her IMF membership request is accepted. Polish debt-service ratio is falling and, although the net debt to hard currency exports remains high, the rescheduling of Polish debt has greatly improved its time-structure. Thus, it may be possible that even Poland may overcome the present crisis without requiring new net credits, but only by rolling over the existing one. This is certainly the case of Romania, who may well pick up payments in 1984. The other nations of the Socialist bloc are nowhere near bankruptcy; instead, they are suffering for their virtual exclusion from new hard currency loans. Certainly, the current international debt crisis broke in Eastern Europe in the first place, and probably the whole group is suffering from a "Polish whip-lash effect". In some Western circles, the weakening of Eastern Europe is viewed as a positive prospect for the advanced West. It is argued that, in times of economic crisis, Eastern - principally Soviet - military targets undergo a necessary reduction. At the same time, falling growth rates compel Eastern planners to shift resources away from the consumption goods sectors, spreading popular discontent for the lower standards of living throughout the bloc and leading eventually to the introduction of political and economic reforms. Past evidence, however, has shown that popular discontent is more likely to be associated with a tightening rather than a loosening of the centre's grip over the system. In general, a moment of economic crisis is possibly the least suitable for a major economic reform. Moreover, economic difficulties tend to reinforce economic ties within CMEA, and thus the political dependence of the six smaller nations on the Soviet Union - a result which may only please Moscow.

In conclusion, further credit curtailment will lead to a decline of Eastern growth rates, stagnation or a fall in consumers' living standards. This, in turn, reduces Western bankers' chances of collecting their debt.

Definitions and Abbreviations

In this paper, "Eastern Europe" or "CMEA countries" comprise the East European member countries of the Council of Mutual Economic Assistance (CMEA) -
Bulgaria, Czechoslovakia, the German Democratic Republic, Hungary, Poland, Romania and the Soviet Union.

"Industrialized Western Nations" (often referred to as "the West") and "Less Developed Countries" (LDC s) are defined according to the standard IMF classification adopted in December 1979. LDC s (or "developing countries") are divided into two groups - "oil-exporting countries", and "non-oil-exporting countries".
For a list of the countries of each group, see IMF, World Economic Outlook (1981), Appendix B, Statistical Tables.

Acknowledgements

Many thanks go to Prof. Nuti for helpful comments on an earlier draft. I would also like to thank the members of the Department's Working Group on Comparative Economic Systems for their comments on a version of this paper presented to their seminar on 20 October 1983. Jessica Spataro helped revise my English and typed the text with admirable speed and competence. I am indebted to Mr. Rossi who cooperated in the printing of Tables 1, 2 and 3.

Footnotes

(1) Projections for CMEA countries are taken from Vanous (1983) and are reported in Table 5.b; those for Latin America are taken from The Economist, 30 April 1983.

(2) Betkenhagen (1983).

(3) Estimates taken from Holzman (1976).

(4) Calculations based on U.N. data. See Tables 1/2.

(5) Portes (1977), p. 753.

(6) There is evidence that part of intra-CMEA flows was being settled in hard currency as well, but there is no precise data on exactly how much. As of 1974, however, the Soviet Union registered surpluses with her Eastern partners.

(7) Interest rates on medium- and long-term Eurocredits, which constitute a large part of Eastern debt to commercial banks, are revised every three, six, nine or twelve months, in order to keep them in line with short-term rates (only official credit rates are kept constant for the entire period of the credit).

(8) Zoeter (1977).

(9) Many authorities underline the limits of debt service and debt export ratios as indicators of creditworthiness. Tables 15 and 16 should be read keeping in mind these limits. For an analysis of the two ratios, see Holzman (1981).

(10) Lawrence Brainard, cited by Zoeter (1977).

(11) Domar (1957). Domar's proof is related to the inflow of foreign investment rather than to foreign loans, but the procedure can be easily applied to our analysis.

(12) This may be seen through the following standard national income identity :

$$S + GCI = I + DS + X - M \qquad (1)$$

where S and I are current domestic savings and current investment, X and M are the quantities exported and imported, GCI is the inflow of gross capital and DS is the debt service. Rearranging (1) we get :

$$(S - I) - (X - M) + GCI = DS \qquad (2)$$

where (S - I) is the gap between savings and investments and (X - M) is the gap between exports and imports.

(13) Let A be the absorption capacity of a nation (internal demand) given by consumption (C) and investment (I).

$$A = C + I$$

In the absence of stocks, domestic absorption is also equal to income produced (Y) plus imports, net of exports :

$$A = Y + M - X$$

and

$$Y - A = X - M$$

which is again our two-gap problem.

(14) The interbank market is the mechanism through which banks dispose of their excess liquidity by placing surplus deposits with other banks. Deposits may last from anywhere between one day and one year.

(15) A \$300 m short-term credit arranged with Western central banks, in addition to a \$210 m credit from the BIS did not manage to cover the entire sum of withdrawals.

(16) OAPEC (Organisation of Arab Petroleum Exporting Countries) estimate, reported by The Financial Times, May 1983.

(17) U.N. (1982).

(18) Wharton's data is somewhat lower than the figures of Table 5; growth rates, however, are grossly consistent. For a discussion of the methodology at the basis of the two sets, see Appendix I.

(19) See also on this point Vanous (1983).

(20) See The Financial Times, 7 July 1982.

(21) Wharton Econometric's estimate. See Vanous (1983).

(22) Vanous (1983).

(23) Reported by The Financial Times, 5 May 1982.

(24) Vanous (1983).

(25) Syndicated loans are set up by a number of commercial banks, in order to spread the risks on credits covering large amounts, or long time periods (over one year). In this instance, commercial banks (which collect savings on a short-term basis) act as investment banks, conceding long-term credits.

(26) Arrangement on Guidelines for Officially Supported Export Credits.

(27) The Financial Times, 19 June 1982.

(28) The Herald Tribune, 16 July 1983.

(29) Vanous (1983), p. 9.

(30) The fall of imports mentioned in paragraph 5.1 is in nominal terms. Due to the overvaluation of the dollar, real reductions have been even more drastic.

(31) The Financial Times, 9 May 1983.

(32) On this point, see Vanous (1983) and paragraph 6.2 below.

(33) Portes (1977), p. 775.

(34) For a discussion of the IMF's role in the adjustment policies in problem countries, see Payer (1974).

(35) The term is used by Portes (1980) in a somewhat different context.

LIST OF TABLES

Table 1

CMEA Trade Flows: Exports (f.o.b)

(billions of US dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
BULGARIA	2.2	2.6	3.3	3.8	4.7	5.4	6.4	7.6	8.9	10.4	--	--
developed market ec.	.3	.4	.5	.5	.5	.6	.7	.8	1.4	1.8	1.4	1.3
developing mark. ec.	.1	.2	.2	.4	.5	.6	.6	.9	1.1	1.5	1.9	1.9
URSS and EE	1.6	2.0	2.5	2.7	3.5	4.1	4.9	5.6	6.2	6.9	--	--
CZECHOSLOVAKIA	4.2	4.9	6.0	7.1	8.4	9.0	10.3	11.7	13.2	14.9	--	--
developed market ec.	1.0	1.1	1.5	2.0	2.0	2.0	2.3	2.5	3.1	3.2	2.9	2.8
developing mark. ec.	.4	.4	.5	.6	.7	.7	.9	1.0	1.1	1.3	1.4	1.3
URSS and EE	2.7	3.3	3.9	4.3	5.5	6.2	7.0	8.0	8.7	--	--	--
GDR	5.1	6.2	7.5	8.7	10.1	11.4	12.0	13.3	15.1	--	--	--
developed market ec.	1.1	1.3	1.6	2.2	2.3	2.8	2.5	2.6	--	4.9	5.4	6.0
developing mark. ec.	.3	.2	.3	.4	.4	.5	.6	.8	--	1.1	1.3	1.3
URSS and EE	3.5	4.4	5.2	5.6	7.0	7.7	8.5	9.4	10.0	--	--	--
HUNGARY	2.5	3.3	4.5	5.1	6.1	4.9	5.8	6.4	7.9	8.7	--	--
developed market ec.	.7	.9	1.3	1.5	1.4	1.7	2.0	2.2	2.9	3.2	2.9	2.9
developing mark. ec.	.2	.2	.2	.4	.4	.5	.5	.6	.8	.8	.9	1.1
URSS and EE	1.6	2.2	2.9	3.2	4.1	2.7	3.3	3.5	4.2	4.4	--	--
POLAND	3.9	4.9	6.4	8.3	10.3	11.0	12.3	14.1	16.2	17.0	--	--
developed market ec.	1.2	1.6	2.3	3.1	3.4	3.7	4.1	4.7	5.3	5.8	3.9	3.7
developing mark. ec.	.2	.3	.3	.6	.8	.8	.9	.9	1.1	1.6	1.5	1.5
URSS and EE	2.3	3.0	3.7	4.4	5.8	6.3	7.0	8.1	9.3	--	--	--
ROMANIA	2.1	2.6	3.7	4.9	5.3	6.1	7.0	8.2	9.7	12.2	--	--
developed market ec.	.8	1.0	1.4	2.2	2.0	2.3	2.3	3.0	3.7	4.0	3.8	3.4
developing mark. ec.	.1	.2	.3	.6	1.0	1.1	1.2	1.4	1.8	2.5	3.3	2.6
URSS and EE	1.0	1.2	1.7	1.8	2.0	2.3	2.9	3.4	3.5	4.3	--	--
EAST. EUR. Total	20.0	24.5	31.4	37.9	44.9	47.8	65.8	61.3	71.0	--	80.1	--
developed market ec.	5.1	6.3	8.6	11.5	11.6	13.1	13.9	15.8	--	22.9	19.9	20.0
developing mark. ec.	1.3	1.5	1.8	3.0	4.2	4.2	4.7	5.6	--	8.6	10.3	9.7
URSS and EE	12.7	16.1	19.9	22.0	27.9	29.3	33.6	38.0	41.9	--	--	--
URSS	13.8	15.4	21.5	27.4	33.3	37.2	45.2	52.2	64.8	76.5	79.4	--
developed market ec.	3.1	3.3	5.6	9.2	9.6	11.6	13.3	14.2	21.4	24.4	24.0	26.1
developing mark. ec.	2.0	2.1	2.8	3.7	4.3	4.4	5.6	7.0	8.5	10.6	12.0	13.9
URSS and EE	7.2	8.1	10.0	11.5	16.4	17.4	20.7	24.8	28.3	--	33.8	--
TOTAL	33.8	33.9	52.9	65.3	78.2	85.0	111.0	113.5	135.8	--	159.5	--
developed market ec.	8.2	9.6	14.2	20.7	21.2	24.7	27.2	30.0	--	47.3	44.0	46.1
developing mark. ec.	9.6	3.6	4.6	6.7	8.5	8.6	10.3	12.6	--	19.2	22.4	23.6
URSS and EE	19.9	24.2	29.9	33.5	44.3	46.7	54.3	62.8	70.2	--	--	--

Source: United Nations 1980 Yearbook of International Trade Statistics for 1971-80 data. Data for 1981-2, and the 1980 data for Czechoslovakia, the GDR and Poland are taken from: United Nations, Economic Bulletin for Europe, 1982, vol. 34 n.4

Table 2

CMEA Trade Flows: Imports (f.o.b) (1)
(billions of US dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
BULGARIA	2.1	2.6	3.3	4.3	5.4	5.6	6.4	7.7	8.5	9.6	--	--
developed market ec.	.4	.4	.5	1.0	1.3	1.1	1.0	1.2	1.4	1.8	2.2	1.9
developing mark. ec.	.1	.1	.2	.3	.3	.4	.4	.4	.4	.5	.5	.7
URSS and EE	1.6	2.0	2.5	2.8	3.7	4.1	4.9	6.0	6.6	7.3	--	--
CZECHOSLOVAKIA	4.0	4.7	6.1	7.5	9.1	9.7	11.2	12.6	14.4	15.1	--	--
developed market ec.	1.1	1.2	1.7	2.4	2.6	2.7	3.0	3.3	3.9	3.6	3.2	2.9
developing mark. ec.	.2	.3	.4	.6	.6	.6	.8	.7	.8	.8	.7	.7
URSS and EE	2.6	3.0	3.9	4.5	5.9	6.3	7.3	8.4	9.4	--	--	--
GDR	5.0	5.9	7.9	9.6	11.3	13.2	14.3	14.6	16.2	--	--	--
developed market ec.	1.3	1.6	2.1	2.9	3.3	4.2	3.8	3.7	--	6.5	5.9	5.0
developing mark. ec.	.2	.2	.3	.6	.5	.6	.7	.7	--	1.1	.7	.8
URSS and EE	3.2	3.7	4.8	5.4	7.2	8.0	9.4	9.7	--	--	--	--
HUNGARY	3.0	3.2	4.0	5.6	7.2	5.5	6.5	8.0	8.7	9.2	--	--
developed market ec.	.8	.9	1.3	2.1	2.0	2.0	2.5	3.2	3.5	3.8	3.6	3.4
developing mark. ec.	.2	.2	.3	.5	.5	.6	.7	.8	.8	.9	.9	1.0
URSS and EE	1.9	2.0	2.4	3.0	4.5	2.8	3.2	3.9	4.3	4.3	--	--
POLAND	4.0	5.3	7.7	10.5	12.6	13.9	14.6	16.1	17.6	18.9	--	--
developed market ec.	1.2	1.9	3.6	5.5	6.4	7.0	6.5	6.7	7.0	6.7	4.5	3.1
developing mark. ec.	.2	.3	.3	.5	.6	.6	.7	.9	1.4	1.8	.9	.6
URSS and EE	2.6	3.1	3.8	4.4	5.5	6.2	7.3	8.3	9.0	--	--	--
ROMANIA	2.1	2.6	3.5	5.1	5.3	6.1	7.0	9.1	10.9	13.2	--	--
developed market ec.	.9	1.1	1.6	2.6	2.4	2.3	2.7	3.6	4.1	4.0	3.5	1.9
developing mark. ec.	.1	.2	.3	.6	.7	1.1	1.0	1.5	2.5	4.0	3.4	2.7
URSS and EE	1.0	1.2	1.4	1.6	2.0	2.4	2.9	3.4	3.7	--	--	--
EAST. EUR. Total	20.2	24.3	32.5	42.6	50.9	54.0	60.0	68.1	73.6	--	82.8	--
developed market ec.	5.7	7.1	10.8	16.5	18.0	19.3	19.5	21.7	--	26.4	23.2	18.2
developing mark. ec.	1.0	1.3	1.8	3.1	3.2	3.9	4.3	5.0	--	8.9	6.9	6.0
URSS and EE	12.9	15.0	18.8	21.7	28.8	29.8	35.0	39.7	--	--	--	--
URSS	12.5	16.0	21.1	24.9	37.0	38.1	40.8	50.5	57.7	68.5	73.2	79.4
developed market ec.	3.2	4.5	6.7	8.9	14.6	15.5	14.7	17.6	21.8	24.2	25.2	26.3
developing mark. ec.	1.7	1.9	2.9	4.1	6.1	5.6	6.5	7.3	8.1	7.8	10.8	9.2
URSS and EE	7.3	9.3	11.0	11.4	15.7	16.2	18.8	24.5	26.6	--	29.4	--
TOTAL	32.7	40.3	53.6	67.5	87.9	92.1	100.8	118.6	133.8	--	156.0	--
developed market ec.	8.9	11.6	17.5	25.4	32.6	34.8	34.2	39.3	--	50.6	48.4	44.5
developing mark. ec.	2.7	3.2	4.7	7.2	9.3	9.5	10.8	12.3	--	16.7	17.7	15.2
URSS and EE	20.2	24.3	29.8	33.1	44.5	46.0	53.8	64.2	--	--	--	--

(1) Imports for Hungary are c.i.f.
Source: see Table 1.

Table 3
<u>CMEA Trade Balances</u>
(billions of US dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
EAST. EUR. Total	-0.3	0.3	-0.9	-4.8	-6.0	-6.2	-6.3	-6.7	-5.2	-2.9	-2.7	--
developed market ec.	-0.6	-1.0	-2.2	-4.5	-6.3	-6.4	-5.7	-5.9	-3.6	-3.5	-3.3	1.8
developing mark. ec.	-0.3	-0.2	0.0	-0.1	-1.0	-0.3	-0.4	-0.6	--	-0.3	3.8	3.7
URSS and EE	-0.2	1.1	1.1	0.3	-0.9	-0.5	-1.4	-1.7	--	--	--	--
URSS	1.3	-0.7	0.3	2.5	-3.7	-0.9	4.3	1.7	7.0	7.9	6.2	--
developed market ec.	-0.1	-1.2	-1.1	0.3	-4.9	-3.6	-1.4	-3.4	-0.5	0.2	-1.2	-0.2
developing mark. ec.	0.3	0.2	-0.1	-0.3	-1.8	-1.2	-0.9	-0.3	0.4	2.8	1.2	3.7
URSS and EE	-0.1	-1.2	-1.0	0.1	0.7	1.2	1.9	0.3	1.7	--	4.4	--
TOTAL	1.0	-0.4	-0.6	-2.3	-9.7	-7.1	-1.9	-5.0	1.8	5.0	3.5	--
developed market ec.	-0.7	-2.2	-3.3	-4.2	-11.2	-10.0	-7.1	-6.4	-4.1	-3.0	-4.5	1.6
developing mark. ec.	0.0	0.0	-0.1	-0.4	-2.8	-1.5	-1.3	-0.3	--	2.5	5.0	7.4

Sources and notes: see Table 1.

Table 4

CMEA Estimated Gross Hard-Currency Debt (1)
(billions of U.S. dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Bulgaria	0.743	1.009	1.020	1.703	2.640	3.198	3.707	4.263	4.415	3.510	2.975
Czechoslovakia	0.485	0.630	0.757	1.048	1.132	1.862	2.616	3.206	4.099	4.890	4.620
GDR	1.408	1.554	2.136	3.136	5.188	5.856	7.145	8.894	10.912	14.410	15.300
Hungary	1.071	1.392	1.442	2.129	3.135	4.049	5.655	7.473	8.529	8.810	8.800
Poland	1.138	1.564	2.796	4.643	8.014	11.483	13.967	17.844	22.669	25.120	25.000
Romania	1.227	1.249	1.611	2.693	2.924	2.903	3.605	5.221	7.009	9.500	10.700
East Europe (excl. USSR)	6.072	7.398	9.762	15.352	23.033	29.351	36.695	46.901	57.633	66.240	67.395
USSR	1.807	2.409	3.749	5.176	10.578	14.853	15.728	17.227	18.100	18.100	20.900
Total	7.879	9.807	13.511	20.528	33.611	44.204	52.423	64.128	75.733	84.340	88.295
CMEA banks (2)	0.637	1.654	1.939	2.385	3.720	4.609	5.538	6.425			
Overall total	8.516	11.461	15.450	22.913	37.331	48.813	57.961	70.553			

(1) Gross debt includes credits from Western banks reporting to the BIS (short-medium-and long-term borrowing, including syndicated loans); IMF and World Bank (IBRD) credits to Romania and to Hungary; unguaranteed supplier credits; official government-guaranteed export credits (including American Commodity Corporation -CCC- credits and excluding the intra-German trade "swing" credit) and bonds. All figures are adjusted to incorporate various additional information available.
(2) See note (2) of table 4.

Sources: CIA, Handbook of Economic Statistics, and "Estimating Soviet and East European Hard-Currency Debt".

Table 5

CMEA Estimated Net Hard Currency Debt (1)
(billions of U.S. dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Bulgaria	0.723	0.909	0.997	1.360	2.257	2.756	3.169	3.710	3.700	2.730	2.135
Czechoslovakia	0.160	0.176	0.273	0.640	0.827	1.434	2.121	2.513	3.070	3.640	3.755
GDR	1.205	1.229	1.876	2.592	3.548	5.047	6.159	7.548	8.950	11.750	12.640
Hungary	0.848	1.055	1.096	1.537	2.195	2.852	4.491	6.532	7.300	7.510	7.900
Poland	0.764	1.150	2.213	4.120	7.381	10.680	13.532	16.972	21.500	24.500	24.250
Romania	1.227	1.204	1.495	2.483	2.449	2.528	3.388	4.992	6.700	9.180	10.350
East Europe	4.927	5.723	7.950	12.732	18.657	25.297	32.860	42.267	51.220	59.310	61.030
USSR	0.582	0.555	1.166	1.654	7.451	10.115	11.230	11.217	10.200	9.500	12.500
Total	5.509	6.278	9.116	14.386	26.108	35.412	44.090	53.484	61.420	68.810	73.530
CMEA banks (2)	0.478	1.240	1.454	1.789	2.790	3.457	4.154	4.819	4.870	4.930	5.000
Overall net debt	5.987	7.518	10.570	16.175	28.898	38.869	48.240	58.303	66.290	73.740	78.530

(1) Gross debt (see Table 4) net of Eastern deposits on Western banks.
(2) Estimated indebtedness of the IIB and IBEC to Western commercial banks.

Sources: CIA, Handbook of Economic Statistics, and "Estimating Soviet and East European Hard-Currency Debt".

CMEA Net Hard Currency Debt, 1980/1983 Table 5b

(billions of U.S. dollars).

	1980	1981	1982	1983 *
Bulgaria	2.5	2.1	1.8	1.7
Cechoslovakia	3.4	3.4	3.2	3.2
GDR	11.2	11.0	9.2	8.3
Hungary	5.8	6.2	6.2	6.0
Poland	22.0	23.2	24.1	24.8
Romania	9.3	9.7	8.8	8.1
Eastern Europe	54.2	55.6	53.3	52.1
USSR	8.7	10.8	8.0	10.7
Total	62.9	66.4	61.3	62.8

* Forecast of Wharton Econometrics, Centrally Planned Economics Service.

Source: Wharton Econometrics, Centrally Planned Economics Service.

Table 6

Estimated Balance of Payments of CMEA Nations with the Developed Market Economies

(billions of U.S. dollars).

EE and USSR[1] (1980/1981)	Trade Balance	Net sources & transferts	of which: Invest. Income	Current account balance
1975	- 11.2	- 0.7	- 1.4	- 11.9
1976	- 10.0	- 0.6	- 1.8	- 10.6
1977	- 7.1	- 1.1	- 2.4	- 8.2
1978	- 6.4	- 1.9	- 3.5	- 8.3
1979	- 4.1	- 2.6	- 5.2	- 6.7
1980	- 3.0	- 4.5	- 7.2	- 7.5
1981	- 4.5	- 5.5	- 8.6	- 9.7
EASTERN EUROPE				
1980	- 3.2	- 4.0	- 5.4	- 7.1
1981	- 3.3	- 4.3	- 6.1	- 6.6
Jan-June 1981	- 1.7	- 2.1	- 3.1	- 3.7
Jan-June 1982	0	- 2.2	- 3.2	- 2.2
SOVIET UNION				
1980	+ 0.2	+ 0.2	- 1.1	+ 0.4
1981	- 1.2	- 0.5	- 1.8	- 1.7
Jan-June 1981	- 1.4	- 0.2	- 0.9	- 1.6
Jan-June 1982	- 0.7	- 0.3	- 0.8	- 1.0
EE and USSR[1]				
1980	- 3.0	- 3.8	- 7.2	- 6.8
1981	- 4.5	- 5.5	- 8.6	- 10.0
Jan-June 1981	- 3.1	- 2.7	- 4.3	- 5.8
Jan-June 1982	- 0.7	- 2.9	- 4.4	- 3.6

(1) Includes estimated CMEA banks' investment income payments with western nations.

Sources: United Nations, Economic Bulletin for Europe (1980) vol. 32, n. 1 for years 1975/1978. United Nations, Economic Bulletin for Europe (1982) vol. 34, n. 4 for years 1979/1982. Trade balances are taken from table 3.

Table 7

CMEA Nations Terms of Trade with the Developed Market Economies.

	1970	1972	1973	1974	1976	1977	1978	1979	1980	1981
BULGARIA	104	104	103	102	95	91	87	83	-	-
CZECHOSLOVAKIA	110	107	106	110	95	88	88	84	-	-
GDR	115	114	109	104	101	99	100	99	-	-
HUNGARY	120	118	116	108	102	99	98	96	97	-
POLAND	98	104	102	100	101	100	100	97	-	-
USSR	94	96	102	109	107	111	113	129	145	151
EASTERN EUROPE (excluding USSR)	-	-	-	-	99	95	92	96	98	100
EASTERN EUROPE & USSR	-	-	-	-	104	101	104	114	126	132

1975 = 100

Sources: United Nations, 1980 Yearbook of International Trade Statistics, vol. 1, p. 1193. (Country breakdown, 1970/1980). United Nations, Economic Bulletin for Europe, 1982, vol. 34 n.4 (for the aggregate indices).

Table 8

ast European Assets and Liabilities with Western Commercial Banks [1]
(billions of U.S. dollars)

		1974	1975	1976	1977	1978	1979	1980	1981	end-June 1982	end-Dec. 1982	end-Marc 1983
ulgaria	a	-	0.28	0.35	0.44	U 0.49	U 0.71	U 0.77	U 0.80	U 0.78	U 0.96	U 0.95
	l	-	-1.60	-1.97	-2.34	-3.17	-3.08	-2.61	-2.13	-1.95	-2.01	-1.84
	n	-0.84	-1.32	-1.62	-1.90	-2.68	-2.37	-1.84	-1.33	-1.17	-1.05	-0.89
zechoslovakia	a	-	0.25	0.36	0.44	U 0.63	U 1.00	U 1.26	U 0.83	U 0.64	U 0.73	U 0.86
	l	-	-0.29	-0.87	-1.26	-1.98	-2.85	-3.50	-3.17	-2.74	-2.69	-2.70
	n	+0.4	-0.04	-0.51	-0.82	-1.35	-1.85	-2.24	-2.34	-2.10	-1.96	-1.84
DR [2]	a	-	1.32	0.62	0.71	1.19	U 1.90	U 2.04	U 2.13	U 1.51	U 1.88	U 1.82
	l	-	-3.32	-3.58	-4.14	-6.19	-7.72	-9.46	-10.10	-8.75	-8.49	-8.15
	n	-1.24	-2.00	-2.96	-3.43	-5.00	-5.82	-7.42	-7.97	-7.24	-6.61	-6.33
ungary	a	-	0.75	0.90	0.87	U 0.90	U 1.17	U 1.38	U 0.86	U 0.40	U 0.73	U 0.51
	l	-	-2.19	-3.05	-4.22	-6.45	-7.37	-7.45	-7.45	-6.50	-6.41	-5.97
	n	-1.03	-1.45	-2.15	-3.35	-5.55	-6.20	-6.07	-6.59	-6.10	-5.68	-5.46
oland	a	-	0.51	0.64	JU 0.39	JU 0.82	U 1.20	U 0.62	U 0.72	U 0.73	U 0.96	U 0.86
	l	-	-3.87	-5.44	-6.79	-11.73	-15.05	-15.14	-14.67	-13.20	-13.36	-12.30
	n	-1.67	-3.36	-4.80	-6.40	-10.91	-13.95	-14.52	-13.95	-12.47	-12.40	-11.44
omania	a	-	0.37	0.29	J 0.19	JU 0.22	U 0.30	U 0.26	U 0.30	U 0.36	U 0.23	U 0.23
	l	-	-0.88	-0.73	-1.19	-2.54	-3.98	-5.30	-4.75	-4.15	-4.04	-3.85
	n	-0.62	-0.51	-0.44	-1.00	-2.32	-3.68	-5.03	-4.45	-3.79	-3.81	-3.62
SSR	a	CU -	CU 2.85	CU 3.72	CJU 4.22	JU 5.86	U 8.62	U 8.57	U 8.42	U 6.69	U 10.03	U 9.97
	l	-	-7.60	-10.34	-10.55	-12.82	-12.92	-13.40	-15.86	-14.59	-14.21	-13.99
	n	-0.74	-4.74	-6.62	-6.33	-6.96	-4.30	-4.82	-7.44	-7.90	-4.18	-4.02
esidual	a	HCJU -	HCJU 0.69	HCJU 0.69	HCJU 0.45	HJ 0.51	H 0.63	H 0.67	H 0.61	H 0.60	H 0.72	H 0.80
	l	-	-2.50	-2.98	-2.41	-2.72	-2.94	-3.00	-2.49	-2.18	-2.04	-2.07
	n	-1.24	-1.81	-2.29	-1.96	-2.21	-2.31	-2.33	-1.88	-1.58	-1.32	-1.27
otal	a	-	7.02	7.57	7.71	10.62	15.42 [3]	15.53 [3]	14.67	11.71	16.24	16.00
	l	-	-22.26	-28.96	-32.90	-47.60	-55.91 [3]	-59.81 [3]	-60.62	-54.06	-53.25	-50.86
	n	-6.63 [3]	-15.24	-21.39	-25.19	-36.98	-40.43 [3]	-44.18 [3]	-45.95	-42.35	-37.01	-34.86

Notes to Table 8:

(1) Including banks from the Group of Ten countries, plus Switzerland, Austria, Denmark, Ireland and the offshore branches of U.S. banks in the Bahamas, the Cayman Islands, Panama, Hong Kong and Singapore. Prior to 1977, data do not include Austria, Denmark and Ireland.
For banks in Canada, Japan, Switzerland and the United States, the country breakdown is incomplete. Its extent is indicated by the use of the letters C (Canada), U (United States), H (Switzerland), J (Japan).

(2) Excluding positions of banks located in the Federal Republic of Germany vis-à-vis the GDR.

(3) Including Albania.

Sources: BIS, Annual Reports and Quarterly Reports.

Table 9

Identified Medium-Term Euro-Credits Raised by CMEA Borrowers
(millions of U.S. dollars).

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
BULGARIA	65	115	160	125	240	245	239	207	-	-	-
CZECHOSLOVAKIA	-	-	-	60	200	150	230	450	475	-	-
GDR	85	15	12	280	235	670	642	656	342	497	69
HUNGARY	70	90	150	250	300	200	500	950	550	550	486
POLAND	20	370	509	475	469	19	406	861	732	-	-
ROMANIA	-	-	-	-	-	125	453	280	458	337	-
SOVIET UNION	-	-	-	750	282	234	400	320	50	25	153
CMEA BANKS	140	50	100	480	900	1.100	500	1.025	-	100	-
TOTAL	380	640	931	2.420	2.626	2.743	3.370	4.749	2.607	1.509	708

Sources: OECD Financial Statistics, and Financial Statistics monthly. Various issues.

Table 10

Official Export Credits to CMEA Nations

(millions of U.S. dollars).

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
BULGARIA	208	177	129	101	111	236	262	269	270	-	-
CZECHOSLOVAKIA	201	195	199	227	206	287	326	408	470	520	600
GDR	418	459	426	391	403	493	635	745	850	-	-
HUNGARY	103	98	89	76	54	51	59	93	120	150	200
POLAND	370	384	543	783	1.091	1.849	2.921	3.700	4.400	5.800	7.200
ROMANIA	612	633	717	688	605	550	647	721	830	-	-
EAST EUROPE	1.912	1.946	2.103	2.266	2.470	3.466	4.850	5.936	6.940	-	-
USSR	1.400	1.551	1.708	2.389	3.631	5.185	5.870	6.010	7.700	8.100	8.400
TOTAL	3.312	3.497	3.811	4.655	6.101	8.651	10.720	11.946	14.640	-	-

Source: CIA, "Estimating Soviet and East European Hard Currency Debt"; Handbook of Economic Statistics for 1971/1979) Wharton Econometrics (for 1980 and 1981).

Maturity Distribution of CMEA Assets, 1981/1982 (billions of U.S. dollars).

Table 11

	1981			1982		
	Up to and incl. 1 year (A)	Over 1 year until 2 years (B)	Over 2 years (C)	(A)	(B)	(C)
BULGARIA	1.1	0.3	0.6	1.1	0.4	0.4
CZECHOSLOVAKIA	1.2	0.3	1.5	0.9	0.2	1.5
GDR	4.6	1.6	2.9	3.5	1.2	2.7
HUNGARY	3.1	0.6	3.5	2.2	1.0	3.0
POLAND	5.5	1.9	5.3	4.6	1.4	5.8
ROMANIA	1.8	0.5	1.4	1.6	0.3	4.3
USSR	8.2	0.9	4.7	6.6	1.0	4.3

Source: BIS, Quarterly Reports.

Undisbursed Credit Commitments to CMEA Nations, 1978/1982 Table 12
(millions of U.S. dollars).

	1978	1979	1980	1981	1982
BULGARIA	412	282	479	584	321
CZECHOSLOVAKIA	300	291	295	224	284
GDR	1.231	1.413	1.505	1.735	1.176
HUNGARY	428	415	669	353	489
POLAND	4.409	3.902	3.870	1.797	674
ROMANIA	1.190	806	1.050	478	416
EAST EUROPE	7.970	7.109	7.868	5.171	3.354
USSR	4.144	2.827	1.722	1.977	3.859
TOTAL	12.124	9.940	9.601	7.148	7.219

Source: BIS, Quarterly Reports, various issues.

Table 14

External bond Offerings of Some CMEA Nations
(millions of U.S. dollars)

	1977	1978	1979	1980	1981
HUNGARY	174.6	0	0	50.0	20.0
POLAND	80.9	30.0	81.0	0	0
TOTAL	255.5	30.0	81.0	50.0	20.0
(of which: floating rate notes)	(65.0)	(30.0)	(81.0)	(50.0)	-

Source : OECD

Table 15

Estimated CMEA Nations' Debt - Service Ratios[1]

(percent)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 (2)
BULGARIA	36	32	33	33	39	45	46	38	30	24	20	15
CZECHOSLOVAKIA	10	11	13	14	15	17	20	22	23	26	24	20
GDR	18	20	21	25	29	38	49	54	36	35	29	21
HUNGARY	14	16	19	19	21	25	36	37	26	42	38	32
POLAND	15	19	23	30	42	59	79	92	107	102	64	53
ROMANIA	27	25	22	23	18	19	20	22	38	43	46	43
USSR	17	15	15	18	17	19	21	18	16	15	7	4

(1) The ratio of the sum of net interest payments and / repayments of medium and long-term debt to non-socialist export earnings.

(2) Forecast.

Source: CIA, Estimating Soviet and East European Hard Currency Debt (1972/1979) and Handbook of Economic Statistics (for the Soviet Union); Vanous (1983), (for all countries, 1980/1983; for the Soviet Union 1982/1983).

Table 16

Estimated CMEA Nations' Debt - Export Ratios[1]
(percent).

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 (2)
BULGARIA	180	151	142	151	226	230	244	218	148	83	65	56	60
CZECHOSLOVAKIA	11	12	14	25	31	53	66	72	73	81	87	78	78
GDR	86	82	99	100	131	153	199	222	-	149	188	125	114
HUNGARY	71	96	73	81	122	130	180	233	200	188	207	158	152
POLAND	55	61	85	111	176	237	271	303	336	331	449	464	486
ROMANIA	136	100	88	89	82	74	97	113	122	141	172	195	178
USSR	11	10	14	13	54	63	59	53	34	21	35	20	27

(1) The ratio of net hard currency debt to total non-socialist export earnings.

(2) Forecasts.

Source: See Table 15.

Table 17

IMF and World Bank Loans to Some CMEA Nations
(millions of U.S. dollars).

	1975	1976	1977	1978	1979
ROMANIA	194	403	584	810	945

Source: Zoeter (1981)

IMF and World Bank Loans to Some CMEA Nations
(millions of U.S. dollars).

	1981	1982
ROMANIA of which:	1.680	-
- 3 years IMF facility.......	1.480	
- World Bank loan..........	200	
HUNGARY	-	503
- IMF Stand by credit.........		503

Sources: The Financial Times, 06/11/1981
The Financial Times; 06/05/1982

APPENDIX 1

As a rule, Eastern nations tend not to disclose information on their foreign debt. Not even Romania, a long-standing member of international financial institutions, published anything near the data on foreign debt and debt-structure that is generally required from any LDC (i). In the winter of 1980, under pressure from Western bankers, the Polish Finance Minister reported a debt of some $20 bn - not far from the Western estimates. Recently Hungary's National Bank has started publishing a fairly detailed breakdown of the country's external debt (ii). For the other nations and for the group as a whole, figures are uncertain.

CMEA hard currency debt is estimated by a number of Western institutes - the Bank of International Settlements, Chase Manhattan Bank, the CIA, Wharton Econometrics, the World Bank, the United Nations, to quote only the better-known ones. Most institutes base their debt estimates on Eastern nations' estimated hard currency trade balances. It should be borne in mind, however, that, in the absence of first-hand data, there is a good degree of speculation in Western figures. The extent to which trade with LDCs and intra-CMEA flows are settled in hard currency is much debated in the West. Wharton Econometrics, for instance, considers a given percentage of Eastern trade flows to be settled in hard currency. The CIA, on the contrary, identifies the developing nations with which Eastern nations trade in convertible currencies and then estimates the trade flows on the basis of the bilateral data. (This does not necessarily imply that the CIA method is more accurate than the former, given that a large portion of CMEA flows to LDCs cannot be identified by country of destination). Intra-

CMEA hard currency flows are estimated independently. Trade with the West is generally considered to be settled entirely in hard currency[(iii)].

Due to different calculating techniques and to qualitative judgements, Western estimates of CMEA indebtedness for a given year range from anywhere between a handful of millions to several billion dollars. A sample of the differences among some of the most diffused Western estimates is given in Table A.1. Figures of Eastern hard currency debt generally include the following categories : credits from Western commercial banks reporting to the BIS, net of Eastern assets with the Western banks; official (government guaranteed) export credits (including the CCC - Commodity Credit Corporation - credits from the US, but excluding the intra-German "swing" credit); unguaranteed supplier credits; IMF and World Bank credits to member countries; bonds. Due to lack of information, intra-CMEA hard currency financial flows (including flows from the CMEA banks) are not taken into account. Some adjustment is made (for instance, by the CIA) to consider hard currency loans from banks outside the BIS area. The latter, especially those from Arab nations [(iv)], have been growing in importance in recent years. This paper has been based essentially on CIA and Wharton estimates, probably the most continuative. Fairly detailed information on the estimative techniques adopted by the CIA is provided by the CIA itself and by a number of Western sources. Unluckily, the information in our possession on the method followed by Wharton is incomplete. Thus, it is not possible to compare the two methods; the CIA figures are higher than those reported by Wharton, and the gap tends to widen in recent years (see Table A.1). The UN estimate (line "e" in Table A.1) of Soviet debt for 1980 and 1981 is clearly overvalued. On admission of the UN, it was based on the assumption that the trend in the Soviet hard currency trade deficit during the first half of 1981 would persist during the second half, which did not happen. The estimate was disavowed, and since then the UN has ceased publishing specific country data.

BIS data on Eastern commercial debt covers short-, medium- and long-term loans; it includes interbank credits, bank participation in syndicated loans, time-deposits placed with Eastern banks, trade drafts discounted by the banks and à forfait claims held by banks [v]. With the exception of the UK, prior to 1974, the BIS-reporting banks did not provide a breakdown of their position to Eastern nations. The latter was published first in 1975; ever since then the coverage has slowly expanded. An unresolved problem of BIS statistics is that some portion of the assets reported includes government-backed credits. A correct evaluation of Eastern debt requires that the BIS figures should be adjusted to eliminate double counting. Moreover, overall Eastern commercial debt is corrected to include estimates of Western supplier credits not reported to the BIS, as well as borrowing outside the BIS area. Eastern nations' commercial debt prior to 1977, when the BIS-reporting area reached its present extension (see the footnote to Table 8 in the text) partially reflects the estimates of the assets of Western nations then not reporting to the BIS.

Officially guaranteed export credits is the other single most important component of Eastern debt. Unfortunately, Western government organisations which guarantee export credit to CMEA nations do not publish much data on their involvement in guarantees to Eastern Europe. Data on the latter are derived from various sources and generally present a high margin of variability. The CIA, for instance, admits that "a 10% range of error" should be ascribed to its estimates [vi]. Further discretionality is introduced by the fact that very little data on "firm commitments" is available, and thus they have to be estimated. ("Firm commitments" are approved credits for which contracts have been signed, but deliveries and disbursements not yet made). Information on the assets and liabilities of the intra-German clearing account is not published by either government; estimates are based on occasional information provided by newspapers and economic institutes. The clearing account includes unguaranteed and guaranteed commercial credits net of the interest-free "swing" credit balance. Polish officially-backed export credits sometimes include the agricultural credits granted by the United States under P.L. 480. Polish authorities have been allowed to service their debt in zloty, to be paid to the American Embassy in Warsaw.

Footnotes to the Appendix

(i) Colourful examples are provided by Portes (1977). For instance, "when asked whether he could give 'a more exact figure' for Poland's debt than between $6 and $9 billion, the President of the Foreign Trade Bank replied, 'I cannot. Figures on indebtedness are not published; nor are figures of reserves'". Euromoney, Jan. 1977, quoted by Portes (1977), p. 772, (n. 29).

(ii) Allegedly, when disclosed, information on foreign debt is not allowed to circulate among Eastern scholars; the latter generally rely on Western sources. In 1982, a study on Eastern debt by Polish scholar Czerkawski was entirely based on Western data.

(iii) The CIA estimates exclude the Soviet trade balance with Finland, because it is settled in transferrable roubles. Wharton estimates, on the contrary, include it, because Soviet-Finnish trade is conducted at world market prices and involves goods saleable on the world market. On the same grounds, intra-German trade in valuta marks is generally included in the hard currency trade balance.

(iv) During the 1970's, the main business partners of the CMEA nations within the Arab world were Iran and Kuwait.

(v) A forfait financing is a form of supplier's financing whereby the bank discounts a note from an exporter, absorbing the risk of collecting payment from the importer.

(vi) K. Melson and E.M. Snell "Estimating East European indebtedness to the West", in East European Economics, post-Helsinki, J.E.C. Congress of the US, Washington 1977, pp. 1350-69.

Table A.1

CMEA Net Debt - Estimates from Different Sources

(billions of US dollars)

		1971	1975	1976	1977	1978	1979	1980	1981	1982
BULGARIA	a	0.72	2.26	2.76	3.17	3.71	3.70	2.73	2.13	...
	b	...	2.0	2.5	2.8	...	...	...	...	...
	c	...	2.0	...	3.0	...	...	...	...	...
	d	0.7	2.1	...	...	...	...	2.5	2.2	1.8
	e	...	...	...	...	...	3.7	3.2	2.3	...
	f	...	...	...	...	3.44	...	4.0	...	...
CZECHOS-LOVAKIA	a	0.16	0.83	1.43	2.12	2.51	3.07	3.64	3.75	...
	b	...	1.2	1.8	2.4	...	...	...	...	...
	c	...	1.1	...	1.9	...	...	...	...	...
	d	0.6	1.2	...	...	...	...	3.4	3.4	3.2
	e	...	...	...	...	...	3.1	3.5	3.6	...
	f	...	...	...	...	3.44	...	3.8	...	...
G.D.R.	a	1.2	3.55	5.05	6.16	7.55	8.95	11.75	12.64	...
	b	...	4.2	5.1	6.1	...	...	...	...	...
	c	...	3.8	...	6.6	...	...	...	...	...
	d	1.4	4.8	...	...	...	...	11.6	12.8	9.2
	e	...	...	...	...	...	8.1	9.6	11.3	...
	f	...	...	...	...	7.80	...	10.3	...	...
HUNGARY	a	0.85	2.19	2.85	4.49	6.53	7.30	7.51	7.90	...
	b	...	2.3	2.4	3.0	...	...	...	...	...
	c	...	2.1	...	4.3	...	...	...	...	...
	d	0.6	2.3	...	...	...	...	6.6	7.2	6.2
	e	...	...	...	...	...	7.3	7.4	7.8	...
	f	...	...	...	...	4.69	...	8.4	...	...
POLAND	a	0.76	7.38	10.68	13.53	16.97	21.50	24.50	24.25	...
	b	...	7.1	10.2	12.6	...	...	...	...	...
	c	...	6.7	...	14.0	...	...	...	...	...
	d	1.1	7.7	...	...	...	...	22.3	22.6	24.1
	e	...	...	...	...	...	20.1	22.1	22.4	...
	f	...	...	...	...	15.40	...	23.0	...	...
ROMANIA	a	1.23	2.45	2.53	3.39	4.99	6.70	9.18	10.35	...
	b	...	2.3	2.5	3.0	...	...	...	...	...
	c	...	2.1	...	3.2	...	...	...	...	...
	d	1.6	3.1	...	...	...	...	9.4	10.1	8.8
	e	...	...	...	...	...	6.9	9.1	9.6	...
	f	...	...	...	...	4.75	...	7.9	...	...

Table A.1 (cont'd)

		1971	1975	1976	1977	1978	1979	1980	1981	1982
EAST-EUROPE	a	4.93	18.66	25.30	32.86	42.27	51.22	59.31	61.03	...
	b	5.1	19.1	24.5	29.9	...	...	...	...	...
	c	...	17.8	...	32.9	...	...	...	...	...
	d	6.0	21.2	...	...	...	...	55.8	58.3	53.3
	e	...	...	...	...	...	49.2	54.9	57.0	...
	f	...	...	...	...	39.53	...	57.4	...	...
USSR	a	0.58	7.45	10.11	11.23	11.22	10.20	9.50	12.50	...
	b	1.8	8.4	10.3	12.0	...	...	...	...	...
	c	...	10.7	...	16.3	...	...	...	...	...
	d	1.0	7.8	...	...	...	...	8.7	10.2	8.0
	e	...	...	...	...	...	12.1	13.5	19.5	...
	f	...	...	...	...	18.27	...	7.5	...	...
TOTAL EAST-EUROPE & USSR	a	5.51	26.19	35.41	44.09	53.50	61.42	68.81	73.53	...
	b	6.9	27.5	34.8	41.9	...	...	...	...	...
	c	...	28.5	...	49.3	...	...	...	...	...
	d	7.0	29.0	...	...	...	...	64.5	68.5	61.3
	e	...	...	...	...	...	61.3	68.4	76.5	...
	f	...	...	...	...	57.80	...	64.9	...	...
CMEA BANKS	a	0.48	2.79	3.46	4.15	4.82	4.87	4.93	5.00	...
	b	0.6	3.1	4.0	4.4	...	...	...	...	...
	c	...	...	...	3.5	...	...	...	...	...
	d	0.3	2.2	...	...	...	...	4.1	3.9	...
	e	...	...	...	...	...	4.0	4.0	4.2	...
	f	...	...	...	...	...	...	5.5	...	...
OVERALL TOTAL	a	5.99	28.90	38.87	48.24	58.30	66.29	73.74	78.53	...
	b	7.5	30.7	38.8	46.3	...	...	...	...	...
	c	...	28.5	...	52.7	...	...	...	...	...
	d	7.3	31.2	...	...	...	...	68.6	72.4	...
	e	...	...	...	...	...	65.3	72.4	80.7	...
	f	...	...	...	...	...	...	70.4	...	...

Table A.1 Sources

a CIA, Estimating Soviet and East European Hard Currency Debt, June 1980.

b L.J. Brainard, quoted by Tirapolsky (1982).

c Chase Manhattan Bank, quoted by Tirapolsky (1982).

d Wharton Econometric Forecasting Associates, quoted by Tirapolsky (1982). The data for 1982 are taken from Vaňous (1983).

e United Nations, quoted by Tirapolsky (1982).

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