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SPECIAL ANALYSIS

EASTERN EUROPE: Difficulties in Obtaining Credit

East European countries are having increasing difficulty obtaining Western loans, and Hungary, East Germany, and Yugoslavia may have to reschedule their debts by the end of the year, along with Poland and Romania. The import reductions forced by the lack of credit will, at the least, depress domestic growth and living standards in all five of these countries and have serious implications for political stability in some. Only Bulgaria and Czechoslovakia, because of their policies of financial conservatism, seem immune for the time being. The USSR, facing serious problems of its own, will not be able to provide enough help and, in fact, is aggravating the problem by cutting oil deliveries.

The poor climate for borrowing faced by Eastern Europe for more than a year results from bankers' reassessment of the creditworthiness of the countries in the area as a consequence of the Polish and Romanian financial crises and the growing concern over Eastern Europe's economic problems in general. No East European borrower can now obtain a syndicated hard currency loan from Western bankers, and bankers are refusing to refinance some debts as they come due. Even the export credit agencies of some Western governments are not willing to increase their lending.

Eastern Europe's borrowing problems would increase if Western governments were to join the bankers in reducing loans they make available. This would prompt the bankers to curtail their loans further to Eastern Europe.

Credit Interdependent

Although Poland's private debt rescheduling agreement for 1981 apparently will be signed soon, it cannot hope to earn a large trade surplus or to obtain enough debt relief and credits to cover its debt service obligations of \$10 billion for 1982. Even if Poland manages to avert

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19 March 1982

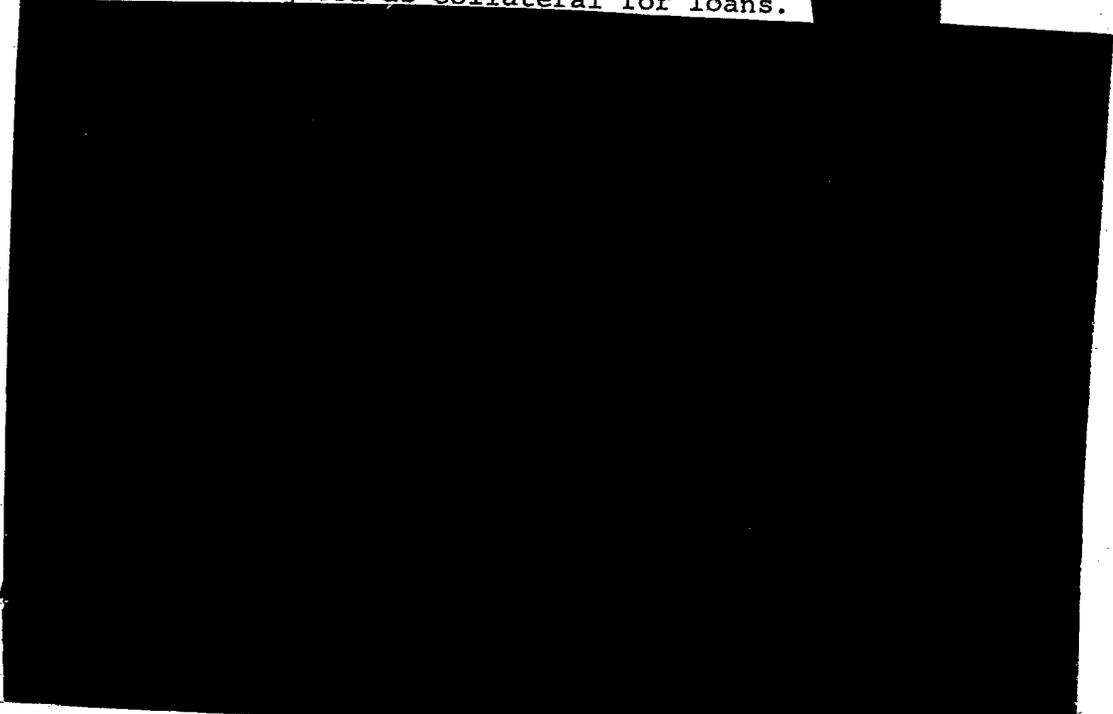
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default, its financial problems are likely to damage the creditworthiness of other East European countries. A Polish default would delay and make even more difficult the return of the other countries to Western capital markets. [REDACTED]

Romania is just beginning to negotiate the rescheduling of its private debt. Even with debt relief, however, Bucharest would face a large gap between available funds and its minimum requirements. [REDACTED]

Romania cut imports substantially last year, leaving few areas to cut further without damaging the already-strained economy. Reserves are low, and Romania is reluctant to draw from its gold stock, partly because some of it is obligated as collateral for loans. [REDACTED]



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19 March 1982

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Czechoslovakia's finances seem more solid.

Implications

The East Europeans rely on Western credits to strengthen and expand their economies and to assert some independence from the Soviets. Loss of credit would cause agricultural and industrial output to decline and fewer consumer goods to be available. In most of these countries, the public would tolerate a fall in living standards, but in Romania and Yugoslavia the population will add this problem to an increasing list of other grievances.

Some regimes may reluctantly decide to turn to the USSR for help, but Moscow will be able to offer little, because it faces serious economic constraints of its own. In fact, the USSR is cutting back on deliveries of oil to Czechoslovakia, East Germany, and Hungary.

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