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# Research Aid

*Recent Developments in  
Soviet Hard Currency Trade*

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*Recent Developments in Soviet Hard Currency Trade*

January 1976

## RECENT DEVELOPMENTS IN SOVIET HARD CURRENCY TRADE

### CONCLUSIONS

1. Following a marked improvement in its trade balance in 1974, the USSR faces record hard currency trade deficits in 1975 and 1976. But Moscow's hard currency payments position should remain healthy.

2. Soviet hard currency trade in 1974 was strongly affected by the Western recession and inflation. High world prices for Soviet primary product exports generated, as expected, a Soviet hard currency trade surplus for most of the year. But, for 1974 as a whole, the USSR incurred a moderate hard currency trade deficit of US \$912 million. Declines in primary product prices, coupled with lower Western demand for Soviet goods and a greater availability of Western goods to fill Soviet orders, changed the trade balance to a deficit in the fourth quarter, and the deficit continued in the first three quarters of 1975.

3. Soviet hard currency exports rose 58% in 1974, with prices almost doubling and volume declining. The value of exports declined after October because of slack demand and lower prices. Imports increased 30% in 1974, primarily because of larger volume of imports of steel and machinery products. Imports spurted in the fourth quarter and have since remained high.

4. The severity of the Western recession in the first half of 1975 and the slowness of recovery in the second half of the year will make it difficult for the USSR to increase its total 1975 exports over the 1974 level. Imports, on the other hand, are bound to increase substantially as a result of already placed contracts for machinery and equipment — imports of which are

Note: This report was prepared by the Office of Economic Research, Central Intelligence Agency. Questions on the report should be addressed to the Director of Economic Research, Central Intelligence Agency, Washington, D.C. 20505.

expected to increase by more than \$1.5 billion — and additional grain imports, which could double in value to \$1 billion or more. Consequently, a record hard currency trade deficit of nearly \$5 billion can be expected. Soviet contracts for grain, equipment, and steel pressage a continued increase in imports in 1976 and a large deficit as well. The size of the 1976 deficit will depend on Soviet export performance and the extent to which Moscow trims or postpones hard currency imports.

5. A weak gold market in 1975 has forced Moscow to borrow heavily in Western money markets, but the Soviets have had no difficulty in arranging financing to take care of this year's deficit. They also appear to be finding credit facilities to help finance the expected deficit in 1976.

### DISCUSSION

#### Background

6. Soviet hard currency imports traditionally have exceeded exports, but poor grain harvests have from time to time led to a rapid, unplanned increase in imports and to substantially greater deficits. For example, the USSR had trade deficits of \$1.4 billion in 1972, \$1.7 billion in 1973, and an estimated \$4.7 billion in 1975. Soviet export earnings improved considerably in 1974 as a result of the rapid rise in world market prices for many Soviet raw materials. Soviet exports increased 58% to \$7.6 billion, imports rose 30% to \$8.5 billion, and the hard currency trade deficit declined to \$912 million, as shown in the accompanying tabulation and in Table A-1 in the Appendix.

	Million US \$		
	Exports	Imports	Balance
1970	2,197	2,711	-514
1971	2,652	2,955	-303
1972	2,815	4,171	-1,356
1973	4,818	6,566	-1,748
1974	7,630	8,541	-912
1975 (est.)	8,100	12,800	-4,700

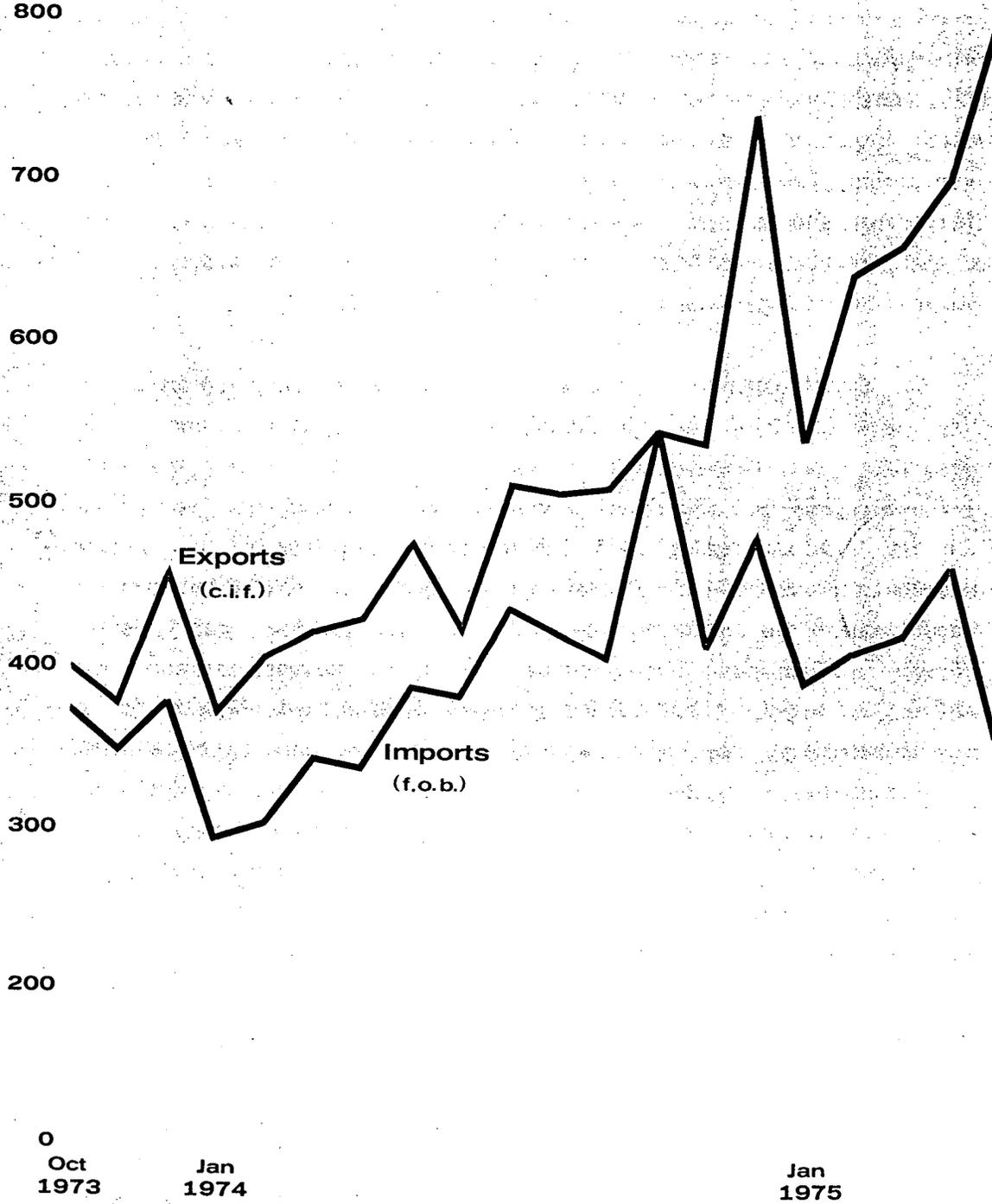
7. Soviet hard currency trade in 1974-75 reflected Western inflation and recession. The economic downswing in the West had little effect on world trade during the first half of 1974, as inflation was boosted to record levels by soaring prices for oil and other commodities. Fear of shortages and expectations of still higher prices brought continued growth in trade volume. This speculative boom set the stage for the sharp fall in world trade volume which began in the final quarter of 1974. With economic activity contracting, firms in many industrial countries had built up excessive inventories, and the stock overhang considerably worsened the trade slump in the fourth quarter. This slump has continued well into 1975, and only recently have Western nations begun a slow recovery.

8. Soviet exports mirrored world trade in 1974, rising rapidly in the first three quarters, but fell sharply in November and remained low in December when Western demand and prices for Soviet raw materials declined rapidly (see the chart). Soviet exports remained depressed during the first three quarters of 1975. The steady rise in prices for many Soviet imports and increased purchases of capital goods and steel also led to rising imports during the first nine months of 1974, but the sharp gain in Soviet imports from its major trading partners during the last quarter was made possible, in part, by the growing recession in the West. Western firms, caught with high inventories and declining demand, were eager to meet standing Soviet requests for increased imports — particularly for steel products. As a result, Soviet imports of steel products climbed dramatically during November and December. The high level of Soviet imports has continued during the first three quarters of 1975, and for the year imports should rise by 50% over 1974. The 1975 rise has resulted from a record level of capital goods imports and a continued high level of imports of Western steel products.

9. The USSR has traditionally covered its balance-of-trade deficit by a combination of drawings on Western credits and gold sales. Both drawings and sales, for example, rose rapidly in 1972-73 in response to the higher deficits. A weak gold market has forced the USSR to rely relatively more

# USSR: Trade with Its Six Largest Western Trade Partners \*

Million US\$  
800



\*Including France, Italy, Japan, the United Kingdom, the United States, and West Germany.

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heavily on Western credits in financing the estimated \$4.7 billion trade deficit for 1975. The Soviets, however, appear to have obtained adequate financing to meet this year's obligations, and current efforts to raise additional loans are probably aimed at financing next year's anticipated deficit.

### 1974 Performance

10. Higher world market prices for major Soviet exports, principally oil and wood, led to a large rise in Soviet export earnings in 1974 (see Table 1).

Table 1  
USSR: Changes in the Price and Quantity  
of Selected Exports<sup>1</sup>

	Change from 1973 to 1974 (Million US \$)	Percentage Change	
		Quantity	Price
Total exports	2,812	-19 <sup>2</sup>	95 <sup>2</sup>
Of which:			
Oil and oil products	1,314	-13	136
Coal and coke	120	11	68
Round timber	119	-10	45
Coniferous lumber	139	-30	118
Cotton fiber	134	-10	79
Platinum and platinum group metals <sup>2</sup>	79 <sup>3</sup>	-10 <sup>3</sup>	43 <sup>3</sup>
Copper	63	14	22
Aluminum	33	2	61

1. Based on official Soviet foreign trade data.

2. Based on a weighted price index and using Western trade data.

3. Estimated.

On the average, Soviet export prices almost doubled, with nearly the entire change occurring in the first half of 1974. The prices of such commodities as oil, copper, and diamonds fell during the latter part of the year in response to recession-induced decline in demand. Soviet prices did not closely follow overall price trends because of special factors or because responses were lagged.

11. Soviet receipts from the sale of crude oil and petroleum products more than doubled in 1974 to \$2,564 million and accounted for almost half of the total rise in Soviet export earnings. The average price of crude roughly tripled, but product prices in some markets increased to a lesser degree. Despite the rapid rise in world market prices for oil and record domestic crude oil production, the volume of Soviet crude oil and petroleum products exported to hard currency countries fell by 13% to 617,000 barrels per day in 1974.

12. The drop in sales volume was almost entirely attributable to the decision of French and Italian importers to reduce imports from previously negotiated levels. The exact cause of the reductions is unclear, but it probably was the result of the high prices charged by the USSR while the embargo remained in effect, of increased availability of oil from other sources as the year progressed, and of a general cutback in French and Italian consumption. Soviet oil was priced above market levels during the first quarter of 1974, but soon fell to market levels or below.

13. Other Soviet export commodities played a major role in Soviet trade in 1974:

- Soviet earnings from the sale of wood and wood products rose by \$312 million — to \$1 billion — in 1974 on the strength of substantially higher prices. Prices for Soviet saw logs — sold mainly to Japan — were 45% higher than in 1973, and prices for lumber — marketed primarily in the United Kingdom — were more than double the previous year's levels. In both cases the rapid rise occurred in the first quarter, with prices remaining at the higher levels for the balance of the year. Although initially lower, prices charged British and West German buyers for lumber rose faster than those charged by competitors, and by the end of the quarter Soviet prices caught up to those of other suppliers. The volume of log and lumber exports were respectively 10% and 30% below 1973 levels. In both cases, deliveries in 1974 were concentrated in the

second and third quarters; substantial falloffs in exports which occurred in November and December were probably connected to slumps in British and Japanese housing starts.

- Higher world prices contributed to a 60% increase in Soviet earnings from cotton exports in 1974 to \$357 million, despite a 10% decline in volume. Cotton prices in major markets rose sharply in mid-1973, but have fallen since mid-1974. Soviet prices to Japan, which took about 60% of Soviet cotton exports to hard currency countries in 1974, lagged behind the increase in world prices, but caught up when a new contract doubling prices apparently was signed in July 1974.
- Earnings from coal and coke exports increased 89% in 1974 to \$255 million with average prices up 68%. Soviet prices more or less followed world price trends during the year.
- Natural gas earnings were only \$86 million in 1974, as deliveries to Italy were just beginning and those to West Germany remained small. Although prices rose 53%, much larger price increases are yet to come. Soviet agreements with Austria, Italy, and West Germany call for natural gas prices to be tied to — but at a discount from — the cost of home heating oil. By mutual agreement, however, the rise in prices resulting from the rapid price increase for alternative fuels has been spread out over a period of two to three years.
- Higher prices accounted for more than half the 40% rise in Soviet earnings from copper sales. Soviet prices followed world market levels closely, rising rapidly during the first half of the year and falling sharply thereafter.
- Strong world demand, fueled in part by speculation, led to higher prices for Soviet platinum and platinum group metals in 1974.

Despite an estimated 10% drop in volume, 1974 earnings rose by an estimated \$80 million — to more than \$350 million. Sales to Japan remained strong throughout the year, while sales to the United States — Moscow's other major consumer — were largely concentrated in the first six months. Despite a falloff in world demand, Soviet diamond sales picked up during the last six months of 1974 and totaled \$400 million for the year. Soviet sales are tied to a marketing agreement with the DeBeer's Corporation, and the rising Soviet sales in the face of declining world demand suggest a lag in this arrangement.

### Soviet Imports

14. Soviet imports from the West rose by \$2 billion in 1974 in spite of a \$900 million decline in grain purchases. Larger volume and higher prices were both important factors in the \$2.9 billion increase in non-grain imports (see Table 2). For example, the volume of nontubular steel imports more than doubled, with a 43% increase in price; and imports of machinery and equipment, plastics, rubber, and pipe also rose both in volume and price. In other cases, particularly chemicals, higher prices accounted for most of the increase in imports.

15. Steel shortages have long plagued the Soviet economy, but they have become more acute as a result of Soviet decisions to accelerate domestic construction activity, such as the speed-up in building the Baikal-Amur Magistral rail line. Soviet importers have relied on the West for most of their import needs. In 1974, Western firms accounted for 70% of the total volume of steel imports, and Soviet imports of steel products from the West doubled in value to \$1.9 billion.

16. Soviet efforts to procure steel for delivery in 1974 began in 1973, coinciding with a high level of demand for steel in world markets, reflected in rising prices and full order books for most steel producers. The USSR, a marginal buyer of steel in the West, was hard pressed to place orders that

**Table 2**  
**USSR: Changes in the Price and Quantity**  
**of Soviet Hard Currency Imports<sup>1</sup>**

	Change from 1973 to 1974 (Million US \$)	Percentage Change	
		Quantity	Price
<b>Total imports</b>	<b>1,975</b>	<b>N.A.</b>	<b>N.A.</b>
Machinery and equipment	594	22 <sup>2</sup>	10 <sup>2</sup>
Crude oil	59	-69	294
Steel	988	50	41
Of which:			
Pipe	226	8	42
Shaped and rolled steels	718	102	43
Plastics and related materials	236	7 <sup>2</sup>	171 <sup>2</sup>
Other chemicals	212	-10 <sup>2</sup>	139 <sup>2</sup>
Natural rubber	127	22	62
Textile raw material and semimanufactures	54	-3 <sup>2</sup>	3 <sup>2</sup>
Grain	-900	-76	45
Meat	126	3	3
Raw sugar	-171	3	3
Other foods	-61	N.A.	N.A.
Manufactured consumer goods	59	N.A.	N.A.
Unspecified imports	233	N.A.	N.A.
Other imports	419	N.A.	N.A.

1. Based on Soviet statistics.
2. Representative sample.
3. Not imported in both years.

year but, by its willingness to pay premium prices, gained acceptance from some producers for increased deliveries in the first half of 1974. Even well into 1974, as the deepening recession weakened demand from the automotive and construction industries, steel producers remained busy, bolstered by strong demand for investment goods, particularly equipment for energy-related industries. Late in the year, however, as orders dropped off, the Soviets were able to obtain deliveries of steel before the end of the year. Paradoxically, the Soviets paid more for their steel at the end of the year than earlier because contracts were concluded at prices existing when demand was high. For the year as a whole, the average price of steel imported by the Soviets was 41% above 1973.

17. Imports in 1974 also featured the following:

- Soviet imports of machinery and equipment from the West rose to \$2.3 billion in 1974, up by \$600 million over the 1973 level. This gain was anticipated because of the increased number of Soviet equipment orders placed in the West in 1972 and 1973 (see Appendix, Table A-2). Orders for most 1974 deliveries were placed before the 1973 oil embargo, when prices were relatively stable. Prices were not a major factor in the increase. Available information indicates an average price increase of about 10% and a 22% increase in volume. Machine tools, mainly for the automotive industry, registered the largest increase, followed by oil and gas field equipment.
- Soviet imports of chemical products, particularly plastics and material to produce plastics, increased rapidly in 1974 as a result of higher prices being charged in the West. For the year as a whole, prices of plastics and related materials almost tripled, while imports rose only 7% in volume. The price rise for imports of other chemicals, while not as great (up an estimated 139%), led to a \$212 million increase in imports despite an estimated 10% drop in volume. Available data do not indicate clearly the timing of these price variations.
- Other Soviet imports showed mixed results. Grains fell sharply in 1974 — by 63%, to \$523 million — but Moscow paid an average of 45% more, compared with 1973. Soviet sugar imports fell \$170 million — to \$17 million — in 1974. Imports of meat were renewed, however, as Moscow took advantage of Western surpluses and accompanying low prices to import \$126 million worth of meat during the year. Although Soviet purchases of textile raw materials and related semimanufactures rose by only \$54 million in 1974, they constituted a major component of Soviet hard currency imports at almost half a billion dollars.

### Hard Currency Balance

18. Although considerably smaller than the 1973 deficit, the 1974 hard currency deficit of \$912 million was a surprise. Much of the 1974 deficit resulted from the rapid rise in Soviet imports that occurred in the last quarter. According to partner country statistics, the USSR ran average monthly surpluses of about \$40 million with OECD countries during the first half of the year and surpluses of \$68 million during the third quarter. In the fourth quarter, the balance shifted as the USSR incurred an average monthly deficit of \$35 million. Transactions with several of the USSR's major trading partners<sup>1</sup> show an even more pronounced reversal — from an average monthly surplus of \$117 million in the third quarter to an average monthly deficit of \$95 million during the fourth.

### Financing the 1974 Deficit

19. Moscow easily covered its 1974 trade deficit by selling gold and drawing on Western credits. In 1974 the USSR's basic balance — the balance of current and long-term capital transactions — was in surplus by more than \$1 billion (see Table 3).

20. The Soviets sold less than half of their estimated 1974 production of gold — earning about \$750 million. Sales volume was considerably less than in 1973, but estimated earnings fell by only some \$250 million because market prices were 63% higher in 1974 (an average of \$158.80 per troy ounce).

21. The USSR was able to draw an estimated \$1.7 billion in medium- and long-term credits to finance imports, most of which are government

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1. Official trade statistics of the United States, Japan, France, West Germany, Italy, and the United Kingdom. Western trade statistics traditionally differ from those provided by the USSR, particularly with respect to Soviet exports which are reported on an f.o.b. basis by the USSR and on a c.i.f. basis in the West. Trends in Soviet trade, however, are similar, regardless of which statistics are used.

Table 3

## USSR: Hard Currency Balance of Payments

	Million US \$	
	1973	1974
Merchandise exports, f.o.b. <sup>1</sup>	4,818	7,630
Merchandise imports, f.o.b. <sup>1</sup>	-6,566	-8,541
Nonmonetary gold	1,000	750
Services and private transfers, net <sup>2</sup>	325	401
Official transfers, net	-49	-54
<b>Current account balance</b>	<b>-472</b>	<b>188</b>
Long-term capital, net	1,013	820
<b>Basic balance</b>	<b>541</b>	<b>1,008</b>
Change in Eurocurrency position on the London market, net <sup>3</sup>	494	-605
Errors and omissions, net <sup>4</sup>	1,035	403

1. Derived from Soviet statistics.

2. Interest payments and receipts on short-term loans are not included. Estimated receipts from transportation have been recently revised.

3. The Soviets' position with continental banks is not known; their position with London banks may include some medium-term liabilities.

4. Including changes in hard currency holdings, short-term capital movements other than in London, and hard currency repayments from less developed countries for Soviet credits and arms sales.

guaranteed and made available at subsidized interest rates. An estimated \$1.4 billion worth of machinery and equipment imports was financed in this manner. West Germany, France, and Japan were the major sources of credit; Soviet imports from the United States, backed by Eximbank credits, totaled \$117 million in 1974. Because repayments on past drawings rose faster than additional credits received, net credits<sup>2</sup> fell by more than 30% —to \$600 million (see Table 4). Nonetheless, earnings from exports increased even faster than repayments on interest and principal, and the debt service ratio fell to 15%.

22. The several gas-for-pipe agreements signed in recent years with West Germany, France, Italy, and Austria also call for long-term credit support for Soviet purchases of large-diameter pipes. In 1974, about \$300

2. Net credits represent the addition to Soviet hard currency receipts after repayments of interest and principal on past drawings have been accounted for.

Table 4

USSR: Estimated Drawings and Scheduled Repayments  
on Medium- and Long-Term Credits

	Million US \$			Outstanding Debt at Yearend	Percent <sup>1</sup> Debt Service Ratio
	Drawings	Scheduled Repayments of Principal and Interest	Net Credits		
1966	275	170	105	505	11
1967	305	181	124	658	11
1968	510	255	255	951	13
1969	630	322	308	1,316	15
1970	715	389	326	1,722	18
1971	682	477	205	2,029	18
1972	1,030 <sup>2</sup>	573	457	2,608	20
1973	1,695 <sup>2</sup>	815	880	3,645	17
1974	1,710	1,110	600	4,465	15
1975 <sup>3</sup>	3,700-4,700	1,500	2,200-3,200	7,000-8,000	19

1. Scheduled repayments of principal and interest as a percent of hard currency exports.

2. Including drawings on three-year Commodity Credit Corporation credits.

3. Estimated.

million worth of pipe imports were estimated to have been associated with these deals and thus covered by credit. The USSR did not choose to use available CCC credits to finance any of the \$282 million<sup>3</sup> worth of wheat, corn, and rye purchased from the United States in 1974. This lack of interest in medium-term US credits can be attributed to higher interest rates on CCC credits and the general improvement in Moscow's balance of payments in 1974.

#### Prospects for 1975-76

23. The Soviet hard currency trade deficit in 1975 is expected to reach a record \$4.7 billion. The Soviet Union has continued to increase imports

3. US statistics. Soviet statistics show \$350 million in grain imports.

from the West at a time when export growth continues to be limited by recession in the West (see Table 5).

Table 5  
USSR: Hard Currency Trade Balance

	Billion US \$		
	Actual 1974 <sup>1</sup>	Projected 1975	
	Soviet Statistics	Western <sup>2</sup> Statistics	Soviet <sup>3</sup> Statistics
Soviet exports	7.63	N.A.	8.1
Developed West	6.67	8.0	7.1
Less developed West	0.96	N.A.	1.0
Soviet imports	8.54	N.A.	12.8
Developed West	7.16	11.0	11.4
Nongrain	N.A.	10.0	10.4
Grain	N.A.	1.0	1.0
Less developed West	1.38	N.A.	1.4
Exports minus imports	-0.91	N.A.	-4.7

1. Soviet statistics are f.o.b.-f.o.b.

2. Projections are based on partner country data for January-August trade with the United States, West Germany, Japan, France, Italy, and the United Kingdom. January to May data were used for smaller hard currency developed countries. These data were extrapolated separately through the end of 1975 and then summed. Second half exports were adjusted upward because Soviet exports have in recent years averaged 22% greater in the second half than in the first six months. Soviet imports in the second half were adjusted upward by 5% for the same reason. Grain exports were treated separately on the basis of known and estimated shipments.

3. Our reporting of Soviet trade is traditionally based on Soviet data. Linear regressions were used to estimate Soviet trade data from the projections derived from partner country data. These regressions, which compared Soviet with Western trade data for the 1960-73 period, yielded coefficients of determination greater than 0.99. Soviet reporting of exports for 1975 are projected at 89% of the level projected from Western data; Soviet nongrain import reporting is projected at 104% of the level projected from Western data.

24. Hard currency imports in 1975 are expected to reach \$12.8 billion, roughly 50% higher than in 1974. In the first nine months, imports from the USSR's six major Western trading partners were running at 58% above the monthly average for 1974 (see Table 6). Soviet imports of Western machinery and equipment should be on the order of \$4 billion, compared with \$2.3 billion in 1974 (see Appendix, Table A-1). During the first six months, Soviet machinery imports from major suppliers were up by an average of

Table 6

USSR: Trade with the Big Six<sup>1</sup>

Monthly Averages in Million US \$

	1974					
	1st Half		3rd Qtr		4th Qtr	
	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port
<b>Total</b>	<b>409.5</b>	<b>340.5</b>	<b>506.4</b>	<b>417.5</b>	<b>477.4</b>	<b>602.8</b>
West Germany	97.1	123.3	109.9	156.8	104.7	215.4
Japan	113.3	59.5	139.0	94.0	107.0	152.3
France	42.5	45.3	55.6	52.7	55.3	76.9
Italy	53.2	41.9	80.4	58.8	80.4	63.3
United States	31.4	52.8	25.6	33.0	28.4	66.0
United Kingdom	72.0	17.7	95.9	22.2	101.6	28.9
<b>Trade balance</b>	<b>69.0</b>		<b>88.9</b>		<b>-125.4</b>	
	1975					
	1st Qtr		2d Qtr		3d Qtr <sup>2</sup>	
	Ex- port	Im- port	Ex- port	Im- port	Ex- port	Im- port
<b>Total</b>	<b>403.2</b>	<b>607.7</b>	<b>412.6</b>	<b>722.9</b>	<b>477.1</b>	<b>763.9</b>
West Germany	99.4	196.4	104.7	257.1	99.8	254.6
Japan	95.8	138.8	98.5	146.2	97.7	114.0
France	56.1	82.8	61.7	96.5	60.1	87.6
Italy	67.4	66.4	48.8	101.8	113.7	122.2
United States	26.3	92.1	18.3	82.2	18.1	139.6
United Kingdom	58.2	31.2	80.6	39.1	87.7	45.9
<b>Trade balance</b>	<b>-204.5</b>		<b>-310.3</b>		<b>-286.8</b>	

1. Official Western trade statistics. Soviet exports are priced c.i.f. and imports f.o.b.

2. Soviet-Italian trade for August and September is estimated.

70% over the same period in 1974 (see Table 7). Higher prices are responsible for a part of this increase, particularly for those items ordered when prices were rising rapidly in the West. Signed contracts with Western manufacturers also indicate a rise in the volume of Soviet steel imports. During the latter half of 1975, grain imports will rise substantially and should more than offset any possible cuts made in other areas. Of the

Table 7

Soviet Imports of Western Machinery and Equipment<sup>1</sup>

	Million US \$	
	First Half 1974	First Half 1975
<b>Total</b>	<b>567</b>	<b>965</b>
United States <sup>2</sup>	101	177
Japan	57	113
France	114	194
West Germany	269	406
United Kingdom	26	75

1. Comparisons based on SITC category 7 for the United States and Japan and on BTN category 84 for France and West Germany.

2. During July-September 1975, US firms delivered an additional \$154 million in machinery to the USSR.

roughly \$1 billion in Western grains scheduled to be delivered in 1975, most will come in the second half of the year.

25. Soviet hard currency exports may rise slightly in 1975, to \$8.1 billion. The USSR's exports to its six major Western trading partners in the first nine months of 1975 were 2% below the January-September figures for 1974. Soviet exports have traditionally been higher in the second half of the year<sup>4</sup> and — despite the lack of evidence of any such growth in the third quarter — we feel that this trend will be repeated in 1975. The USSR has reduced prices on several commodities, and also has contracted to sell more oil than in the first half of the year. Moscow is known to be pressuring Western governments to increase imports of Soviet products to redress current trade imbalances. Western economic recovery should raise some Soviet exports in the last quarter, but the largest Soviet markets — those in Western Europe — remain very sluggish.

#### Financing the 1975 Deficit

26. The USSR will finance the 1975 deficit through a combination of non-trade revenues, gold sales, drawings on Western credits (see Table 8),

4. In 1974, despite a recession-related drop in the fourth quarter, Soviet exports rose by 20% in the second half of the year.

Table 8

## USSR: Financing the Hard Currency Trade Deficits

	Million US \$	
	1974	1975 (Preliminary)
Hard currency trade deficit	-912	-4,700
Financing	1,920	4,000 to 5,000
Gold sales	750	1,000
Other current account	350	500
Medium- and long-term credits net of principal repayments	820	2,500 to 3,500
Changes in short-term capital, foreign exchange holdings, and errors and omissions <sup>1</sup>	-1,008	700 to -300

1. A negative number indicates an increase in Soviet holdings of foreign currencies and/or improvement in the USSR's net short-term position.

and a probable reduction in foreign exchange holdings. Roughly 20% of the deficit will be covered by revenues from non-trade sources — largely from tourism, transportation, and arms sales.

### Gold

27. The USSR may earn about \$1 billion from gold sales in 1975. Moscow's ability to sell gold in response to the growing trade imbalance in 1975 has been affected by the weakening market during recent months. The Soviets probably sold gold in some quantity during January-August and were rumored to have sold gold directly to Middle East buyers in July. Sales probably were small during September, when gold prices plunged following the International Monetary Fund's announcement that it would sell gold. Given the USSR's trade deficit, it would not be surprising if Moscow re-entered the market in October when gold prices recovered and appeared to stabilize at around \$145 per troy ounce.

### Credits

28. The major share of the 1975 deficit — \$2.5-\$3 billion — will be

financed by a combination of Soviet borrowing in the West and perhaps a reduction in foreign exchange holdings.

- Soviet Eurocurrency deposits in London almost doubled in 1974 to \$1,289 million at year's end, and the Soviets held sizable assets with continental banks as well. By September 1975, Soviet assets in London had been reduced to \$892 million and very likely have fallen even further since that time.
- Medium- and long-term credits extended in earlier years on the basis of contracts placed in the West (largely government guaranteed) will cover a major share of Soviet imports of Western capital goods and large-diameter pipe. On the basis of anticipated deliveries, Soviet drawings for this purpose should exceed \$2.5 billion in 1975, yielding more than \$1.4 billion in net credits.
- Earlier this year, Moscow arranged for two consortium loans totaling \$350 million. The five-year notes were probably intended to finance anticipated cash purchases.
- The Soviets reportedly have arranged additional bank-to-bank credits in Europe and the United States.

29. Since the middle of the year, Soviet efforts to raise loans in Europe and the United States have shown a marked upswing. These efforts are probably geared more toward meeting next year's obligations.

- A \$400 million, five-year loan was syndicated in Europe with US participation.
- The Soviets recently visited US bankers, reportedly to arrange additional large-scale financing for future Soviet purchases in the United States.

### Trade in 1976

30. Despite apparent attempts to trim or postpone expenditures, the USSR will run a substantial trade deficit in 1976. Existing orders should result in perhaps \$3 billion in grain imports. If additional orders are placed in the United States, as is now anticipated, grain imports could rise by another \$1 billion. Machinery and equipment imports may also exceed 1975 levels. The USSR will also import a record value of large-diameter pipe in 1976.

31. The size of the 1976 deficit will depend largely upon the ability of the Soviet Union to revive its hard currency exports to the West. Specifically, recent discussions presage an increase in Soviet oil exports in 1976, and signed contracts call for a sizable increase in Soviet natural gas deliveries to Western Europe. Moscow can also be expected to intensify current efforts to boost export earnings by shaving prices and pressuring Western governments to correct current trade imbalances by taking more Soviet goods.

### Implications of the Deficits

32. Soviet need to use Eurocurrency funds for grain purchases may reduce the USSR's access to the Eurocurrency market to finance capital goods purchases during the next several years. Moscow may be forced to pay higher rates for Eurocurrency loans and to be more selective in the projects using this financing. As a result, Moscow may push for even larger commitments from Western governments for subsidized credit lines to cover Soviet purchases during 1976-80.<sup>5</sup> The USSR's medium- and long-term debt will grow substantially during 1975-76 as a result of the massive borrowing - perhaps to more than \$7 billion by yearend 1975.

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5. Since mid-1974, Moscow has secured roughly \$11 billion from Canada, France, Italy, Japan, the United Kingdom, and West Germany.

33. If the Soviet Union is unable to improve its exports substantially this year, the leadership may be faced with some hard decisions. These include: a further cutback of imports such as consumer goods or plants to produce consumer goods, a delay in delivery schedules for equipment already ordered and not covered by long-term government-guaranteed credit, and a cutback in the value of capital goods orders requiring cash payment.

#### Soviet Reaction to the Deficits

34. Although the Soviets appear to be taking the deficits in stride, they are undoubtedly concerned about their current position. Available reporting on Soviet reactions to the deficits is mixed.

- Orders placed in the West for machinery and equipment have been on the rise since midyear because the USSR is placing contracts for the 1976-80 plan backed by long-term government-guaranteed credits.
- There has been no indication of a desire to push back deliveries for previously ordered equipment. Negotiations on major projects have continued.
- The Soviets continue to open negotiations for major purchases. Over the last few months, for example, the USSR has approached Japanese businessmen about purchasing more than \$1.5 billion worth of nuclear reactor parts and roughly \$1 billion worth of ships.
- Moscow has apparently ordered that, when possible, foreign exchange expenditures be trimmed or postponed until 1977. This policy appears to be broadly applied and may even extend into high-priority areas.

## APPENDIX

Table A-1

### USSR: COMMODITY COMPOSITION OF HARD CURRENCY TRADE<sup>1</sup>

	Million US \$			
	1973		1974	
	Value	Percent	Value	Percent
<b>Total exports</b>	<b>4,818</b>	<b>100.0</b>	<b>7,630</b>	<b>100.0</b>
Crude oil and petroleum products	1,250	25.9	2,564	33.6
Coal and coke	135	2.8	255	3.3
Natural gas	33	0.7	86	1.1
Ferrous and nonferrous metals	475	9.9	582	7.6
Wood and wood products	720	14.9	1,032	13.5
Lumber	268	5.6	436	5.7
Cotton fiber	223	4.6	357	4.7
Furs and pelts	67	1.4	71	0.9
Other	837	17.4	1,434	18.8
Unspecified <sup>2</sup>	1,077	22.4	1,247	16.3
<b>Total imports</b>	<b>6,566</b>	<b>100.0</b>	<b>8,541</b>	<b>100.0</b>
Machinery and equipment	1,739	26.5	2,333	27.3
Rolled ferrous metals	883	13.4	1,871	21.9
Pipe	428	6.5	654	7.7
Nonferrous metals	45	0.7	103	1.2
Chemicals	279	4.2	727	8.5
Plastics	95	1.4	331	3.9
Rubber	129	2.0	256	3.0
Food	2,088	31.8	1,082	12.7
Grain	1,423	21.7	523	6.1
Manufactured consumer goods	202	3.1	261	3.1
Other	818	12.5	1,292	15.1
Unspecified	383	5.8	616	7.2

1. Source: official Soviet foreign trade statistics. Because of rounding, components may not add to totals shown.
2. Composed mainly of exports of diamonds, platinum and platinum group metals, and nickel.

Table A-2

## USSR: ORDERS FROM THE WEST

	Million US \$			Percent of Total	
	1973	1974	Jan-Oct 1975	Average 1973-74	Jan-Oct 1975
<b>Total</b>	<b>2,270</b>	<b>4,239</b>	<b>3,472</b>	<b>100</b>	<b>100</b>
France	400	863	929	19	27
Italy	130	310	411	7	12
Japan	205	685	668	14	19
Sweden	145	87	219	4	6
United Kingdom	155	252	81	6	2
United States	505	799	496	20	14
West Germany	645	1,044	552	26	16
Other	85	199	116	4	4