The Soviet Hard Currency Position and Prospects

Basic Facts

-- The Soviet hard currency position has worsened greatly in the last 18 months as a result of falling oil prices, poor harvests, sluggish Western markets and Poland's financial needs.

-- In response to this situation the USSR has sold more gold in a depressed market, cut imports and increased its use of short term credit.

-- Gross Soviet debt at the end of 1981 totaled $19.3 billion. With hard currency assets of about $8 billion in Western banks, net debt amounted to about $11 billion.

-- Net debt service payments amounted to about $5 billion in 1981, which results in a debt service ratio of 17 to 23 percent, depending on how broad a measure of export earnings is used--that is, whether arms sales, gold sales, and earnings from invisible transactions are included.

Key Judgments

Prospects for Soviet Hard Currency Earnings

The purchasing power of Soviet hard currency earnings is unlikely to increase and may decline during the next few years (through the mid 1980s).

- The volume of oil exports to the West will probably continue to decline; oil prices have fallen sharply in real terms during the past year and are unlikely to increase through at least 1985.

- Higher Soviet earnings from gas exports will probably not offset the decline in oil exports at least until the Yamal pipeline is completed.

- Prospects for other Soviet exports are mixed: although exports of some products, especially chemicals, should increase, it will be difficult for the Soviets to avoid declines in earnings from exports of wood and arms.

Export prospects for the late 1980s and beyond are far more uncertain than those for the next few years. Oil export volume may decline further or oil exports may cease; on the other hand real oil prices may increase, and there would be time to develop other exports. (b)(1) (b)(3)

Soviet Import Possibilities

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The performance of the Soviet economy has been far worse than planned, both in industry and in agriculture, creating a need for larger imports, especially of food and steel. At the same time, a drop in export earnings and large scale hard currency aid to Poland have forced further cuts in imports of machinery and most other industrial goods.

Although the underlying source of the USSR's economic problems is systemic, larger imports of Western equipment and technology could significantly enhance Soviet productivity in the longer term.

But if Soviet export earnings stagnate or decline in the next few years, imports cannot be increased without a growing net outflow of Western capital to the USSR, which would mean a further increase in the Soviet hard currency debt.

Soviet Policy Concerning Western Credits and Hard Currency Debt

In past years, Moscow has followed cautious balance of payments and debt policies. The Soviets have cut imports when faced with substantial hard currency deficits well before hard currency debt reached dangerous levels.

Whether or not Moscow will pursue similar policies in the future is uncertain. To do so will become increasingly painful: additional import cuts would involve either very high priority projects, major products in short supply, especially steel, or politically sensitive grain imports.