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Directorate of Intelligence

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International Economic & Energy Weekly

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18 July 1986

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DI IEEW 86-029
18 July 1986

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International Economic & Energy Weekly

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18 July 1986

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International Economic & Energy Weekly

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Synopsis

1 **Perspective—LDC Debt: A Quietly Emerging Swap Market**

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Creditors and debtors are increasingly active in a growing but often secretive swap market for LDC debt in which banks sell or swap troubled LDC loans at less than their face value. Some observers believe this could lighten the LDC debt burden, but, in our view, both creditor and debtor reluctance to use these techniques will limit the overall impact.

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3 **Third World: Limited Economic Prospects**

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During the last six years, the LDCs' economic performance has deteriorated markedly. Although world economic conditions are becoming more favorable—oil prices, inflation, and interest rates are declining—we believe a number of factors, particularly heavy debt burdens, reduced lending flows, and weak world demand, cloud the prospects for a strong LDC economic recovery.

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7 **China: Reformers Pressing Ahead**

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The 1986 slowdown in Beijing's economic reform program is most likely a temporary phenomenon. More stable economic growth, slower inflation, and political setbacks for key conservative opponents have given reformers new opportunities to advance their programs.

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13 **Cuba: Growing Foreign Financing Problems**

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Cuba is experiencing its worst financial difficulties since it began rescheduling its hard currency debt in 1982. Western creditors have insisted on major import cuts before considering requests for rescheduling of debts falling due in 1986-87 and Moscow has refused increased hard currency assistance.

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19 **Belgium: Deficit Politics**

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Belgium's large public-sector deficit—12 percent of GNP in 1985, one of the highest in the OECD—probably will dip to only about 10 percent this year—well above the government's 8-percent target. Further delay in reaching debt reduction goals will make the task more difficult and threaten coalition stability.

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Perspective

LDC Debt: A Quietly Emerging Swap Market

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Creditors and debtors are increasingly active in a growing but often secretive swap market for LDC debt in which banks sell or swap troubled LDC loans at less than their face value. Some observers believe this could lighten the LDC debt burden but, in our view, both creditor and debtor reluctance to use these techniques will limit the overall impact.

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Bankers, frustrated by the current approach to debt problems, are expanding their use of swaps to limit risks, reduce exposure to a given country, and strengthen their balance sheets. For some smaller banks, swaps have provided an opportunity to eliminate LDC exposure completely. For others, it has offered a means to concentrate or consolidate loans within a preferred geographic region. West European banks and the smaller US banks are particularly active in this market. The larger US banks, however, are constrained by accounting standards that require a bank that sells a portion of its debt at a discount to write down its remaining loans to that borrower.

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Approximately $3 billion in international loans will be traded at a discount this year Purchase prices for debt range from about 10 cents on the dollar for Nicaraguan debt to 87 cents for Colombian exposure. Other price examples include 25 cents for Peruvian loans, 58 cents for Mexican loans, and 75 cents for Brazilian loans.

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One of the most significant factors in the expansion of the swap market has been the debt-to-equity programs instituted by debtor countries including Brazil, Chile, and Mexico. In such schemes, a bank sells debt at a discount to a multinational corporation or private investor who transfers it to the debtor country for redemption near or at full face value in local currency or government paper; the proceeds are then used to purchase equity in local businesses. These arrangements benefit the debtor country by reducing its external debt level and lowering the accompanying interest payments. It may also serve as a stimulus for additional foreign investment:

- Chile's schemes for converting debt into equity could reduce its external debt by over $500 million by next year.
- Mexico has just developed a system to handle the swapping of public-sector debt for equity in private Mexican companies.

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The swap market also is being stimulated by the increased use of a debt-for-exports scheme. Under such a plan, a company seeking to import goods from an LDC would purchase some of the LDC's debt at a discount and exchange it at the LDC's central bank in return for specified goods.

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Although offering relief to both sides, we believe swaps provide only a marginal solution given total LDC debt of roughly $900 billion. Some observers doubt that there would be enough buyers for large-scale debt purchases unless the loans are substantially marked down, and they doubt commercial banks would be willing to take the resulting losses. Nonetheless, if the market for discounted paper continues to grow, regulators could force the banks to value their entire loan portfolios at the lower market rate.

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In our judgment, bankers are worried that a growing recognition that LDC debts are not worth par value could lead debtor countries to argue that their obligations to creditors should be correspondingly adjusted downward. For example, Mexico might argue that, with the market price of their debt only 58 cents on the dollar, their debt obligations should only be $58 billion, rather than the $100 billion they actually owe. Alternatively, debtor countries may buy back more of their own debt—through third parties—at deeply discounted rates. Thus, we believe bankers will continue to downplay their participation in this emerging market.

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Third World: Limited Economic Prospects

During the last six years, the LDCs' economic performance has deteriorated markedly. After averaging 5.5 percent a year in 1973-79, annual real GDP growth dropped to roughly 3 percent during 1980-85, where it is projected to remain this year. Although world economic conditions are becoming more favorable—oil prices, inflation, and interest rates are declining—we believe a number of factors, particularly heavy debt burdens, reduced lending flows, and weak world demand, cloud the prospects for a strong LDC economic recovery.

Factors Constraining LDC Economic Performance

In our judgment, one of the more onerous economic constraints confronting the LDCs is their burdensome financial problems. In 1985, aggregate LDC external debt reached $850 billion, and, according to several estimates, is likely to top $900 billion this year. The ratio of debt service to exports of goods and services, for example, has risen from roughly 15 percent in 1980 to over 22 percent in 1985.

The LDCs' economic outlook is further complicated by the reduction in the net flow of financial resources from Western and OPEC sources. Between 1970 and 1981, these capital flows steadily increased from $20 billion to almost $110 billion. This trend, however, shifted in 1982-85 when official flows stabilized and private flows began to decline. In fact, the increased debt service burden and reduced inflow of financial resources has led to a net outflow of funds. We believe most of the financially troubled LDCs currently are caught in a vicious circle as the demands of debt service crowd out money available for domestic investment, thus making it difficult to stimulate economic growth.

Another factor negatively affecting the LDCs' growth prospects is the changing nature of world trade as compared with the 1960s and 1970s when the LDCs registered high rates of economic growth. In particular:

- ***Weak World Demand for LDC Exports.*** Between 1965 and 1975, when the LDCs registered some of their highest rates of export growth, the industrial countries' average annual real GDP growth was about 4 percent. This has since fallen to below 3 percent, and world demand for LDC exports has declined. According to private and official forecasters, the industrial countries' economic performance will remain sluggish throughout the remainder of the 1980s, depriving the LDCs of a major source of demand for their exports.

- ***Falling World Commodity Prices.*** A significant change has occurred in the composition of the LDC exports. Manufactures have expanded from slightly over 15 percent of their total nonoil exports in 1965 to more than 55 percent in 1984, but this trend reflects a significant decline in world demand for nonoil primary commodities. In all, nominal commodity prices have fallen by over 25 percent from their peak in 1980. Moreover, many experts believe that continued weak demand and abundant supplies will push commodity prices to historically low levels in the next several years.

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- ***Industrial Country Protectionism Persists.*** Since the mid-1970s, industrial countries have reacted to their own slower economic growth and rising unemployment by trying to protect their industries from LDC penetration of their markets. As a result, the LDCs' access to industrial-country markets has been restricted by greater use of orderly marketing arrangements, import quotas, and tightening of preferential trade arrangements. According to the IMF, the most severe protectionist pressures in the period since 1974 have come in textiles and clothing,

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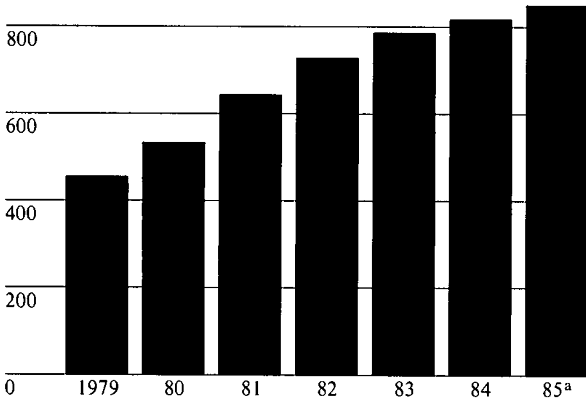
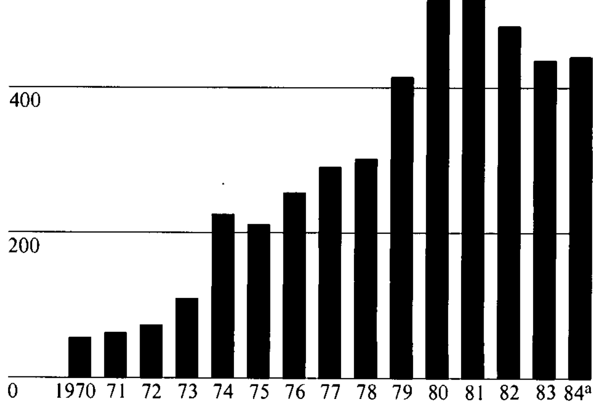
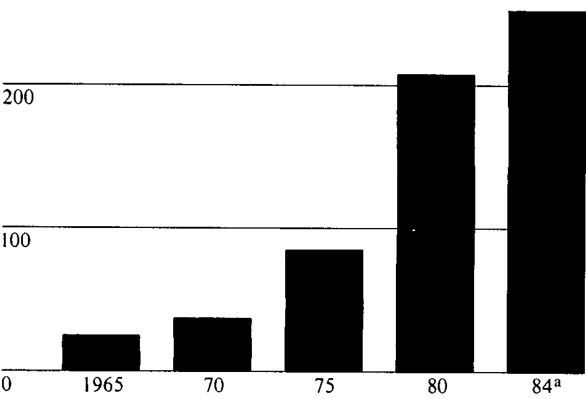
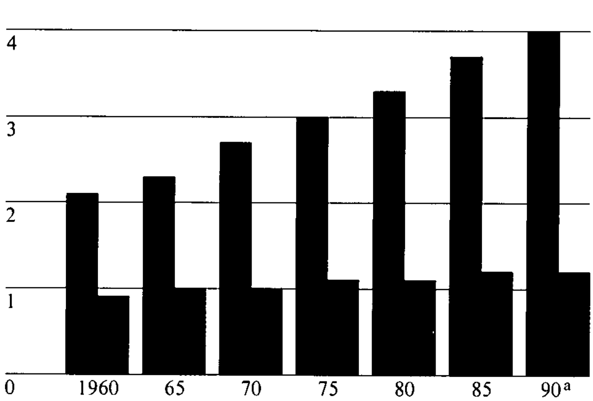
LDC Economic Prospects: Structural Barriers

Note scale change









[a] Estimated.

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footwear, electronics, and chemicals—industries from which many LDCs are launching their manufactures export drives.

- ***Heightened LDC Protectionism.*** The industrial countries are not alone in trying to protect their domestic industries. The LDCs themselves are increasingly erecting trade barriers to protect inefficient or domestically important industries, and to avoid making adjustments to economic policies that are painful, but which are needed to promote growth and make their economies operate more efficiently.

- ***Increased Trade Competition.*** In the 1980s competition among LDCs for access to the industrial countries' markets has intensified. This competition has been accentuated by the emergence of a number of low-cost producers such as Hong Kong, South Korea, Taiwan, and China, as well as the financially troubled LDCs, such as Brazil and Mexico, which are more aggressively promoting their exports to generate the revenue they need to repay their debts.

In addition to issues such as debt and trade, we believe the LDCs' economic prospects are also affected by their continued rapid population growth. According to World Bank estimates, the LDCs' share of world population will increase from 75 percent in 1980, to 80 percent in 2000, and to 85 percent by 2050. The challenge to the LDCs is to generate a sufficient number of jobs to absorb their rapidly growing populations into productive employment. This rapid population growth will also require that LDC governments provide adequate health care, educational and transportation services, as well as to ensure an adequate supply of food and energy. Combined, these demands of a rapidly expanding population will impose a significant drag on the growth of the LDCs' economies.

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LDC Economic Prospects

We believe there are several indications that world economic conditions are becoming more favorable and may be a stimulus to the LDCs' future economic performance. Oil prices are way down. Inflation is declining sharply. Interest rates are falling. Exchange rates have moved into a much more sustainable configuration, and substantial adjustment of trade and current account balances is under way.

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The LDCs cannot assume that their economies will be propelled by the factors that contributed to their high rates of economic growth during the 1970s. The evolving structure of the world economy means that they will have to adopt new, flexible policies for economic development such as a greater role for the private sector, realistic exchange rates, agricultural reform, and a more favorable investment climate. Some LDCs such as the newly industrializing countries of Hong Kong, Singapore, South Korea, and Taiwan probably will be able to capitalize on the improvements in the world economic environment. We believe the economic prospects of most LDCs, however, will depend on their ability to respond to the changes that are occurring in the structure of their own and the world economy—their burdensome financial problems, the changing nature of the world trading environment, and their population growth.

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China: Reformers Pressing Ahead

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The 1986 slowdown in Beijing's economic reform program is most likely a temporary phenomenon. More stable economic growth, slower inflation, and political setbacks for key conservative opponents have given reformers new opportunities to advance their programs. This summer Beijing has aggressively launched experiments designed to test the influence of market forces on enterprise fundraising, the allocation of capital, and labor mobility. In June, China's National People's Congress Standing Committee debated an enterprise bankruptcy law. While the scope of these new experiments has been limited so far to selected enterprises and particular cities, Chinese leaders appear to be building momentum toward an announcement of the next phase in the reform program—possibly including new price reforms—before the end of the year.

The Pause in Reform

Last year the Hong Kong media reported that party conservatives took advantage of numerous economic problems—such as skyrocketing investment spending, soaring inflation, a burgeoning trade deficit, and declining foreign exchange reserves—to criticize Deng Xiaoping and his reform coalition for economic mismanagement, and to press Deng to slow the pace of reform. Beijing announced in January that 1986 would be a year of adjustment and consolidation in the reform program. We believe that reformers ordered this pause, apart from conservative pressure, because they recognized the need to slow growth and improve macroeconomic control techniques before further decentralizing economic decision making. In addition, Beijing probably wanted to use the pause to allow Chinese economists to form a concensus on what the next steps in the reform program should be.

Political Gains by Reformers

Victories this spring by Deng and the reformers in high-level infighting apparently have cleared the way for renewed reform efforts. Although seemingly strong last fall, conservative critics of reform recently have suffered some serious setbacks. Aggressive investigations into the illegal activities of the children of senior officials have damaged the reputations of several key opponents of reform, and recent discussions in the Chinese media about interference in factory decision making by low-ranking party officials reflect Beijing's determination to attack reform critics at all levels. In addition, reformers have won a lively debate on the applicability of Western economic theories to China's development strategy, and conservative ideologues have been forced to lend support publicly to the study of Western philosophy, economics, and humanities in Chinese universities. Some reformers apparently have felt confident enough recently to argue that greater democracy within party and state organs is necessary if economic reforms are to achieve their maximum benefits.

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Restored Economic Stability

Beijing's success in throttling back an economy that was racing out of control last year also has opened the way for new reform experiments. Measures enacted last year have slowed excessive industrial growth, runaway capital spending, and inflation—key subjects of conservative criticism in the past. Official statistics indicate that industrial output increased at a 4.9-percent annual rate during first half 1986, compared with the unusual 23-percent rate registered a year earlier. Capital construction grew at an annual rate of 9.5 percent during the first quarter—faster than Beijing wanted, but only one-fourth of the rate experienced last year. In addition, preliminary first-quarter statistics indicate that prices are rising more slowly than during the last half of 1985. The trade deficit is the most serious problem this year and was apparently little changed in the first quarter from the same period last year

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The Ma Ding Controversy

A 30-year-old philosophy professor writing under the pseudonym Ma Ding touched off a sharp public debate over the relevance of Western economic theories to China's economic reforms by publishing an article titled "Ten Major Changes in China's Economics" in a party newspaper last November. The scholar argued that "no ready answers can be found in Das Kapital*" to guide the development of a modern socialist economy and that "Chinese economists must free themselves from Marxist books . . . and found a new branch of economics." Ma also argued that Chinese economists must study the writings and experience of Western theoreticians, including Keynes and Samuelson. In an editorial on 19 December, a left-leaning Chinese-language newpaper in New York with connections to the PRC criticized the Ma Ding article for presenting the view that Marxist political economy has lost its vitality. This past March, senior conservative ideologues apparently tried to use the New York editorial as the basis for stifling discussion of how Western economic theories could be used in China's development and attacked reform policies in general. According to the Hong Kong press, senior leaders—including Deng Xiaoping—ordered the ideologues to cease their attacks. Reformers responded with a flood of articles extolling academic freedom and supporting economic debate as necessary to advance modernization. By May, the swell of support for open discussions of economic theories forced the same ideologues who tried to cut off the debate to acknowledge publicly the need to study Western concepts.* 25X1

The slowdown in economic growth resulted largely from credit restraints and cuts in state construction projects. Policies limiting the imports of electronic components and automobile parts apparently have reduced growth rates in finished goods industries. Chinese officials also have indicated that the slowdown has been caused by "subjective" factors—such as complacency on the part of managers because of last year's strong performance, and worker dissatisfaction caused by central efforts to limit wage and bonus increases this year. 25X1

Although the Chinese press chronicled complaints this spring by government officials who were dissatisfied with the poor performance in the energy sector and thought that industrial growth had fallen too low, we believe the economy is likely to come close to achieving the target of 8-percent industrial growth set early this year. The recent 13.5-percent devaluation of China's currency, moreover, probably will boost export performance by the end of the year. 25X1

Broadening the Role of Market Forces

Although Chinese leaders remain concerned that the economic problems experienced last year may reemerge, Beijing is encouraging a wide-ranging debate among Chinese economic advisers over what the next steps in the reform program should be. We believe a consensus is emerging that China should rely on more markets to allocate goods, capital, and labor, and Beijing has promoted experiments this summer designed to test the impact of market forces on enterprise fundraising and labor mobility. 25X1

Goods Markets. In the past, local governments prevented enterprises in other regions from competing with factories in their own jurisdictions. This protected local revenues and prompted the development of enterprises that manufactured all components required in the production of the finished product. Beijing now is urging all localities to remove artificial barriers to commerce and is promoting the development of specialized enterprises to serve broader geographic areas. 25X1

Enterprise Fundraising. Reform economists are calling openly for the establishment of a capital market in China. Since April, enterprises in five Chinese cities have been allowed on a trial basis to issue shares to individuals and other businesses. Shares owned by individuals may be resold, given away, inherited, or mortgaged—but are not traded in organized markets. 25X1

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China: Selected Economic Indicators, 1982-86

Percent change (except where noted)

	1982	1983	1984	1985	1986
Industrial output	7.7	10.5	14.0	18.0 [a]	4.9 [b]
Light industry	5.7	8.7	13.9	18.1	NA
Heavy industry	9.8	12.4	14.2	17.9	NA
Agricultural output	11.1	9.6	17.1	13.0 [c]	NA
National income	8.3	9.8	13.9	12.3	NA
Steel	4.4	7.7	8.6	7.3	10.0 [b]
Crude oil	0.9	3.9	7.8	9.2	1.4 [b]
Coal	7.1	7.4	10.3	7.7	−1.7 [b]
Electricity	5.9	7.2	7.3	8.0	7.6 [b]
Capital construction [d]	25.4	6.9	25.1	42.8	9.5 [e]
Retail prices	1.9	1.5	2.8	8.8	NA
Trade balance [f] *(billion US $)*	6.3	5.2	2.2	−8.2	NA
Foreign exchange *(billion US $)*	11.1	14.5	16.7	11.9	10.3 [g]

[a] Excluding the output of village industries.
[b] Half-year output at an annual rate.
[c] Including the output of village industries. The growth rate would be 3 percent if the output of village industries is excluded.
[d] Spending by state-owned units.
[e] First-quarter spending at an annual rate.
[f] CIA estimates.
[g] End of March foreign exchange holdings.

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Labor Practices. US Embassy and press reports indicate that Beijing plans to implement gradually a nationwide unemployment insurance system beginning this month, while simplifying the procedures enterprises must go through to fire unproductive or surplus workers. Beijing also apparently will step up efforts to phase out the "life-tenure" employment system under which workers are given jobs for life and paid salaries that do not depend on individual productivity. According to press reports, Beijing will allow enterprises to hire an increased share of workers under fixed-term labor contracts—making it easier for factory managers to adjust the size of their work forces according to production needs. Under experimental labor policies in one Chinese city, 95 percent of workers recently hired were given labor contracts.

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Enterprise Bankruptcy

A further indication of renewed reform momentum this summer is that Chinese leaders have drafted and are debating China's first enterprise bankruptcy law. By providing lenient terms under which unprofitable state enterprises can receive government support to reorganize their operations, the law appears designed to prod enterprises to improve performance—rather than to shut down large numbers of firms. Nevertheless, it is an important step in furthering market accountability in China. In 1985 enterprise managers—convinced that Beijing would bail them out regardless of losses and inefficiency—took advantage of greater decisionmaking authority by excessively

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Industrial Reform in China

Experiments with industrial reforms have been under way in China since 1979, but the pace and scope of implementation accelerated after the urban reform program was ratified by the Communist Party in October 1984:

- Reduced Central Planning—*Only about 60 major industrial products, such as steel, petroleum, and chemicals, remain under mandatory state production quotas. Although many enterprises still must meet production plans established by departments and local governments, reformers want to use economic incentives increasingly to guide enterprises toward general production targets.*

- Increased Enterprise Autonomy—*Enterprises can retain a larger share of their revenues, and managers have more leeway to develop production plans and decide how to use retained earnings. Enterprises now have the right to sell overquota industrial production at prices above state-set levels. Last year, some industrial enterprises, on a trial basis, were allowed to adjust wages upward or downward on the basis of profits earned. Exporting firms are allowed to retain a portion of foreign exchange earnings for their own use, and a few state enterprises have been granted independent authority to sign contracts for technology deals and joint ventures.*

- Price Reforms—*Beijing took a cautious approach to price reform last year. The key reform implemented was the removal of controls on retail prices of vegetables, meat, and other nonstaple farm products. Beijing also removed price controls on sewing machines, watches, and some brands of bicycles, and—to encourage greater use of highway transport—raised short-haul railroad rates for passengers and freight.*

- Increased Use of Monetary and Fiscal Policies—*Since 1979 Beijing has strengthened the powers of its central bank while increasing the range of indirect credit controls that the bank can use. Beijing implemented a tax system for enterprise revenues during 1983-84, and is now considering replacing some direct taxes on firms with indirect taxes, such as value-added taxes.*

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increasing capital construction and worker bonuses. This year the government signaled its intention to get tough by publicizing the results of an experimental bankruptcy regulation in one Chinese city, which will close down an unprofitable state-owned enterprise in August and auction off its assets to meet its debt obligations.

According to press reports, the bankruptcy law sparked a sharp debate when the State Council in June submitted it to the National People's Congress Standing Committee for deliberation. Some committee members argued that China is not ready for a bankruptcy law—pointing in particular to the irrational price system that obscures enterprise efficiency by forcing some factories to sell their output at prices significantly below market levels. Implementation of the law also is likely to meet strong resistance from local officials who fear the economic—and political—costs of unemployment when enterprises close. Other officials have stated, however, that Beijing will promulgate the law within a year.

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Price Reform

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One of the controversial issues being debated this summer is price reform—which is crucial to the success of the overall reform program. Despite the success of most management reforms, Chinese officials have complained that many firms that benefit from high state-set prices have taken advantage of increased autonomy to reap large profits, even though

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their production efficiency is low. While some economic advisers are pressing for implementation of new price reforms, Chinese leaders—remembering last year's surge in inflation when some price controls were eased—are reluctant to proceed until they are convinced that prices have stabilized.

Beijing ultimately plans to establish a more rational, three-tiered price system. Prices of key products will still be set by the state, but at levels that better reflect relative scarcities in the economy. Prices of many other products, including most manufactures, will be allowed to fluctuate in response to market conditions within bounds set by the state. Supply and demand alone will determine the prices of some consumer goods and overquota production of most industrial goods.

What Is Next?

So far, experiments testing the impact of market forces on capital and labor allocation have been limited to selected enterprises in a few cities—and discussions of bankruptcy and new price reforms have not gone much beyond rhetoric. Nevertheless, reform leaders clearly are building momentum, and we believe they will move ahead with key reforms in late 1986 or early 1987 if Beijing can maintain economic stability in the next six months.

By broadening the reform program, Beijing could reduce many of the inefficiencies in the economy, but it also risks renewed economic instability:

- Increased enterprise authority to raise money by issuing shares would promote capital formation, but could also reduce Beijing's control over the direction of investment.
- Reforms in labor policy and enterprise bankruptcy would spur increases in managerial efficiency and labor productivity while risking heightened social tensions that would accompany increases in unemployment.
- Price reform would allow increasingly autonomous enterprises to base production decisions on rational signals—promoting more efficient use of resources—but would threaten greater inflation in the short run.

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Although the economic reforms mark a sharp departure from Soviet-style central planning, they are not designed to transform China into a capitalist economy. Even if the reforms are implemented fully, the state will continue to control the large industries, and a high percentage of production will still fall under the mandatory plan. Moreover, Beijing will still allocate a large share of investment, limit labor mobility, and maintain extensive control over banking and foreign trade.

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Cuba: Growing Foreign Financing Problems

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Cuba is experiencing its worst financial difficulties since it began rescheduling its hard currency debt in 1982. Faced with declining export earnings, Havana has almost totally exhausted its hard currency reserves and increasingly resorted to expensive short-term borrowing. Western creditors have insisted on major import cuts before considering requests for rescheduling of debts falling due in 1986-87, and Moscow apparently has refused increased hard currency assistance. Havana has not yielded to creditor demands and unilaterally suspended interest payments on both its official and commercial debt coming due in early July. Fearing that cuts in Western imports would further slow production and fan domestic discontent, Cuban economic planners appear to hold unrealistic expectations for a surge in nontraditional exports and modest import substitution efforts. As pressures build, President Castro could again allow many of the disgruntled, unemployed, and imprisoned to leave the country and could even renounce at least some of Cuba's hard currency debt in an attempt to turn the creditors into a collective scapegoat.

The Evolving Crisis

Despite Castro's announced plan to limit import spending, hard currency imports grew by at least 7 percent in 1985. Havana was forced to purchase sugar in Western markets to meet its export obligations to Moscow, while controls on imports of producer goods were eased to stimulate the economy and head off popular dissatisfaction.

According to official Cuban financial data, Cuban hard currency export earnings could not match the increase in imports last year. A sharp drop in world sugar prices, weather damage, and the diversion of sugar exports to the Soviet Union contributed to a 34-percent drop in Cuba's hard currency sugar earnings. Despite Cuba's energy conservation measures, falling energy prices toward the end of last year cut Cuba's income from the resale of Soviet oil—its largest foreign exchange earner—by 5 percent. Start-up delays, planning and distribution problems, agricultural disasters, and the continued impact of the US trade embargo also were cited by Cuban officials as major factors retarding the growth of hard currency exports last year.

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Early indicators point to a continued hard currency trade deficit in 1986. In particular, Cuban planners estimate that plunging world oil prices will cut hard currency oil reexport earnings in half. Meanwhile, damage from Hurricane Kate last November will cut sugar production from 8 million metric tons last year to about 7 million tons this year. In addition, Havana signed a large number of fixed-price contracts before the recent rebound in world sugar prices. Cuban officials estimate that hard currency income from sugar will fall by more than $50 million this year.

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Finally, Cuban efforts to develop new export products and markets have made little progress because of Cuba's well-documented problems with quality control and transportation, its limited technological base, and foreign exchange shortages. Havana emphasized the "impossibility" of reducing imports because a large part of Cuba's imports has already been contracted for and, that doing so, would cut Cuba's production of critical exports. Havana drew down its foreign exchange reserves from $248 million—or about two and a half months of import coverage—at the beginning of this year to about 2 weeks' import coverage by May, according to press reports. The recent flurry of short-term commercial borrowings by Havana suggests that Cuba continues large import purchases. Official Cuban statistics reveal that short-term commercial credits tied to imports now account for more than 30 percent of Cuba's more than

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Cuba: Hard Currency Balance of Payments *Million US $*

	1982	1983	1984	1985 [a]	1986 [b]
Current account	**359**	**239**	**−239**	**−153**	**−362**
Trade balance	727	511	82	73	−100
Exports	1,627	1,431	1,283	1,356	1,125
Sugar	765	305	283	187	137
Oil reexports	309	577	574	547	273
Imports	900	920	1,201	1,283 [c]	1,225
Net services and transfers	−368	−273	−321	−226	−262

[a] Preliminary
[b] Projected.
[c] According to the US Interests Section, the consensus among foreign observers in Havana is that this figure is understated.

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$3.5 billion debt. In addition, the appreciation of key Western currencies against the US dollars Havana earns for sugar and oil sales has raised Cuban import costs and increased its debt servicing expenses—despite the recent fall in interest rates.

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Havana's New Trade Efforts

Apparently having dug in its heels against the severe import cuts demanded by its creditors, Havana hopes to ease the foreign exchange crunch with several modest adjustments:

- *[redacted] Cuba is pressing its Western suppliers to barter goods for Cuban exports, primarily sugar.*

- *In a move toward greater import substitution, Havana recently called for the collection of scrap metal, paper, and textiles, according to the Cuban press.*

- *To support dwindling foreign reserves, the National Bank of Cuba is attempting to salvage precious metals by establishing specialized stores to appraise and purchase gold and silver coins and jewelry from Cuban citizens, at world market prices according to the Cuban press. Western press reports that the gold mine on the Isle of Youth, closed for the past 25 years, has been reopened.*

- *[redacted] Cuba has begun a program to expand exports of Cuban-made tobacco products, leather goods, rum, seafood, and other goods to Mexico for repackaging and eventual resale to the US market in violation of the US trade embargo.* 25X1 25X1

- *Havana is looking to the resale of Angolan and Libyan oil—some of which is received as payment for Cuban construction services—but the depressed world oil market has dimmed its hopes for large profits.*

In the end, financial stringencies probably will force Havana to yield more to Soviet pressures to substitute often inferior Soviet Bloc goods for hard currency Western imports. At the same time, the trickle of Western consumer goods into Cuba is likely to slow further unless the transactions can be funded profitably by the state, as with the government-operated catalog sales scheme where Cuban exiles pay the state exorbitant prices in hard currency to purchase consumer goods for their friends and relatives in Cuba. [redacted] 25X1

Little Help From Moscow

So far, Moscow apparently has refused to bail Havana out of its current financial crisis and may even be relishing Western creditor demands of financial discipline from its spendthrift client. The Soviet Union apparently is holding firm on its refusal earlier this year to significantly increase hard currency assistance to Cuba and [redacted] agreed to no major new capital investment projects in Cuba during the 1986-90 plan. More recently, according to US Interests Section sources, Soviet officials in Havana said that Moscow denied Cuba's request to reduce sugar deliveries to the USSR. [redacted]

Capping hard currency assistance to Havana would be in line with Moscow's previous criticisms of Havana's economic mismanagement and wasteful hard currency spending [redacted] It also would help ease Moscow's own hard currency difficulties resulting largely from declining oil production and low energy prices. We believe Havana will lobby Moscow to reverse its position, but we expect the Soviets would comply only as a last resort if Havana is unable to strike an agreement with Western creditors. Even then, we believe Moscow would require tough austerity measures as a price for the aid. [redacted] 25X1 25X1 25X1 25X1

Debt Renunciation?

Castro, who sometimes acts on impulse, may see several political benefits from some kind of debt moratorium. It would allow him to use Western 25X1

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Cuba's Hard Currency Creditors at the End of 1984 *Million US $*

	Official Debt	Private Debt	Total Debt
Total debt disbursed [a]	**1,748**	**1,679**	**3,427**
Paris Club creditors	1,157	1,006	2,163
Japan	261	230	491
Spain	299	111	410
France	199	167	366
United Kingdom	87	123	210
Switzerland	22	106	128
Italy	83	27	110
Canada	29	54	83
Sweden	57	20	77
Luxembourg	1	68	69
Netherlands	23	42	65
Austria	31	16	47
West Germany	11	33	44
Belgium	35	7	42
Denmark	19	2	21
Other	591	673	1,264
Argentina	329	3	332
Panama	5	22	27
The Bahamas		23	23
Yugoslavia	10	9	19
Oil-exporting countries and others	247	616	863

[a] Differences between this data and that in Cuba: Hard Currency Foreign Debt result from discrepancies in the Cuban sources.

Cuba: Hard Currency Foreign Debt *Million US $*

	1982	1983	1984	1985
Total debt disbursed	**3,148**	**3,236**	**3,374**	**3,552**
Bilateral official debt	1,505	1,546	1,781	1,823
Government-insured export credits	1,238	1,291	1,556	1,632
Multilateral official debt	21	29	19	20
Commercial debt	1,621	1,660	1,574	1,709
Financial institutions	1,566	1,548	1,316	1,310
Suppliers credits	55	112	258	399
Other	1	1	0	0

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creditor nations as a collective scapegoat to justify sharply increased austerity, and he may also believe such a move would regain some prestige lost last year when he was criticized by some Third World leaders for not following his own calls for debt renunciation.

The continuing stream of hard currency imports, despite the near elimination of foreign reserves, may indicate that Havana is stocking its shelves with critical Western goods in case the decision is made to cut ties to Western lenders.

At this point, however, hints of debt repudiation probably are designed to extract additional concessions from the Western lenders who want to maintain a chance of eventual repayment. Castro almost certainly realizes renunciation would effectively freeze Cuba's access to foreign currency inflows, and, with little or no foreign reserves remaining, Cuban planners would face an impossible task in trying to maintain the level of Western imports needed to support domestic production. On the basis of the lukewarm reception Castro received last year in his push for Third World debt repudiation and Moscow's likely displeasure with such a move, we question whether the possibility of enhancing his political image would, in Castro's eyes, outweigh the cost associated with a cutoff from Western lenders.

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The Emigration Safety Valve

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Another surge in Cuban emigration is a distinct possibility as the regime struggles to provide an outlet for the disgruntled, unemployed, and imprisoned currently taxing limited state resources. We believe Havana probably is looking for ways to increase

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emigration to its Latin neighbors as well as the United States. In addition to legal emigration, Cuba may also be inclined to release political prisoners if Washington will allow them to come to the United States. The Castro regime, as it has in the past, may also allow citizens to use illegal emigration channels to the United States through third countries. If public dissatisfaction reaches a level perceived as intolerable to Castro, he could opt for another Mariel-style mass emigration.

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Belgium: Deficit Politics

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Belgium's large public-sector deficit—12 percent of GNP in 1985, one of the highest in the OECD—is probably crowding out private investment.[1] Prime Minister Martens's Social Christian–Liberal government is making deficit reduction a top priority, claiming its reelection last year as a mandate. The government is pledged not to raise taxes, however, and coalition politics hamper efforts to cut spending. The recently announced budget for 1987—which took six weeks of intense bargaining between the coalition partners—probably will result in a deficit of at least 10 percent of GNP, well above the government's 8-percent target. Further delay in reaching debt reduction goals will make the task more difficult and threatens coalition stability.

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Roots of the Deficit Problem

Belgium's large public-sector deficit reflects the consequences of slow growth, high unemployment, and generous social welfare coverage. Public expenditures soared from 39 percent of GNP in 1974 to 56 percent just eight years later as Brussels tried to ease the social costs of slower economic growth and to assist in the adjustment of the aging industrial sector. Unemployment—which peaked at over 13 percent in 1985—also forced increased spending on unemployment compensation and job creation. Because of Belgium's slow economic growth, government revenues did not keep pace with increased expenditures and Brussels's borrowing requirement rose from 3.5 percent of GNP in the early 1970s to a peak of 13.2 percent in 1981—one of the highest in the OECD.

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Interest payments on the soaring debt—which now is more than 100 percent of GNP—have been the fastest growing component of government expenditures over the last few years. In 1985 these payments accounted for over 10 percent of GNP—double the 1979 level—and over 20 percent of government spending. Belgian authorities are also disturbed by the heavy reliance on foreign borrowing. Foreign debt rose from less than 2 percent of total Belgian indebtedness in 1979 to 23 percent in 1984 before abating last year, when Brussels financed its entire deficit domestically for the first time since 1978.

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Selected OECD Countries: Government Budget Data as a Share of GDP, 1984 [a]

Percent

	Total Outlays	Total Receipts	Surplus or Deficit
Big Seven			
United States [b]	36.8	31.9	−4.9
Canada	47.5	41.3	−6.2
Japan	33.1	31.0	−2.1
West Germany	48.2	46.3	−1.9
France	52.6	49.8	−2.8
United Kingdom	48.0	44.1	−3.9
Italy	57.4	44.4	−13.0
Smaller countries			
Austria	50.0	47.7	−2.3
Belgium	55.4	44.0	−11.4
Denmark	60.7	56.4	−4.3
Finland	39.9	40.1	0.2
Ireland [b]	56.0	44.5	−11.5
Netherlands [b]	62.6	56.5	−6.1
Norway	49.4	55.4	6.0
Sweden	63.7	61.4	−2.3
Switzerland	31.2	34.5	3.3

[a] Includes all levels of government.
[b] 1983 data.

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[1] Among 16 more developed OECD countries, Belgium had the third-largest budget deficit in 1984. It had the sixth-highest level of spending but ranked 11th in terms of revenue collection.

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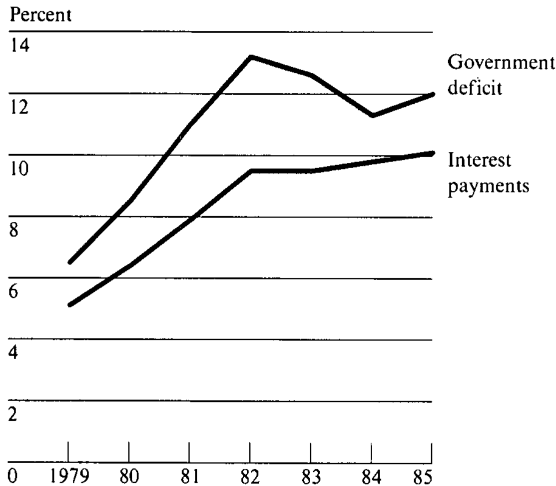
Belgium: Public Finances as a Share of GNP, 1979-85



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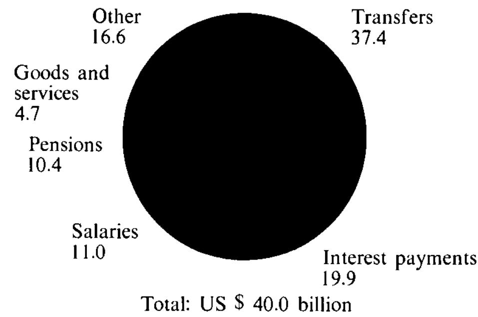
Belgium: Central Government Budget, 1984

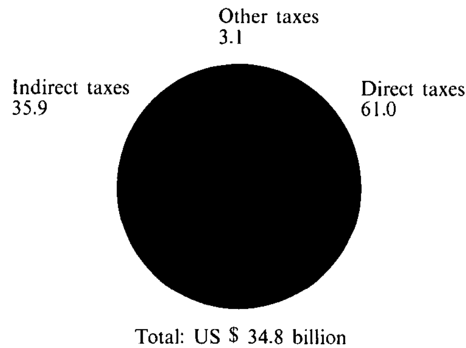
Percent

Current Expenditures



Total: US $ 40.0 billion

Current Revenues



Total: US $ 34.8 billion

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Past Government Measures

The Martens government has followed an austerity program since 1982 in an effort to reduce the deficit. The initial goal was a deficit of 7 percent of GNP by 1985, but the political sensitivity of expenditure cutbacks has led Brussels to continuously push back the target date, and the level last year was 12 percent. Past measures included restraining wage increases for public-sector employees, delaying civil service bonuses, and cutting welfare programs—especially family and unemployment benefits. These efforts have reduced government spending for consumption and transfers by almost 2 percent of GNP, but this gain has been wiped out by higher interest payments.

There has been less emphasis on raising taxes although there have been some increases such as social security contributions and the value-added tax. To make last year's spending reductions politically palatable, however, the coalition partners indexed income tax brackets and made a 2.25-percent reduction in marginal tax rates to be phased in over a three-year period. As part of its deficit reduction effort, Brussels also introduced a debt management program in 1985 to convert short-term foreign debt into long-term bonds with lower interest rates. The Finance Ministry has also issued about $150 million worth of zero-coupon Eurobonds.

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The 1986-1987 Budgets

As with most controversial decisions in Belgium, the coalition's discussions on the 1986 and 1987 budgets were arduous and were not completed until late this spring. Before negotiations began, Martens described the attainment of a deficit of 8 percent of GNP by 1987 as "do or die for my government." To achieve this goal, tax increases or spending cuts of $4.2-4.7 billion—more than 10 percent of projected spending—were needed.

The budget that emerged called for limited measures for 1986, since the year was nearly half over, but outlined a somewhat vague plan to reduce the deficit by $4.1 billion in 1987. Although Martens generally opposes higher taxes, the budget provides $375 million in new revenues by restoring the value-added tax on construction to its normal level and eliminating some tax deductions. Brussels will take advantage of lower domestic interest rates by refinancing some of its debt at a savings of over $600 million in 1987. The government also estimates that lower energy prices, a cheaper dollar, and lower international interest rates will save an average of $300 million annually over the next two years.

The largest cuts—$1.1 billion—will be made in social programs and unemployment benefits. The government is reducing hospital capacity, instituting a user fee for some medical tests, cutting some public employment programs and privatizing its workman's compensation fund. The most controversial move is the $440 million reduction in the education budget, most of which will derive from the elimination of 14,000 secondary school teaching positions. The education cut reflects Budget Minister Verhofstadt's determination to reduce the teacher/student ratio, the highest in Europe.

The Defense Ministry is also hit by the budget axe. While there will be a 2-percent nominal increase in defense spending this year, it will be followed by a 3.4-percent decrease in 1987—to be achieved mainly by cutting equipment expenditures. Finally, business subsidies will be cut—including a $200 million reduction in R&D subsidies—while public investment will be decreased by pressing ahead with the privatization of portions of the telecommunications industry and the medical insurance sector.

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Outlook

The 1986 and 1987 budget plans announced by Brussels almost certainly will not put Belgium's financial house in order. The US Embassy reports, in fact, that the deficit may actually rise this year to nearly 13 percent of GNP. We believe this puts the 1987 target of 8 percent out of reach.

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Even if Martens resists making concessions on spending, the government probably will miss its 1987 deficit target because many of the budget cuts are uncertain or overestimated. Many Belgian economists are claiming, for example, that sure savings from the budget amount to only $2.3-2.5 billion rather than the government's projected total of $4.1 billion. US Embassy officers estimate that, if the remaining $1.6-$1.8 billion in cuts are not realized, the deficit will fall to only a bit less than 10 percent of GNP in 1987.

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In our view, however, some further spending concessions are likely. In particular, Martens will be hard pressed to resist easing spending cuts affecting Catholic unions and schools. Martens's Flemish Social Christian Party relies heavily on the backing of the Catholic unions, which in recent years have been drifting toward Belgium's socialist parties. Moreover, Brussels may find itself spending more money than anticipated on subsidies for aging and troubled industries such as coal and steel.

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Implications

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The longer Brussels postpones serious deficit reduction, the more difficult the task becomes because of the burden of servicing the growing debt. According to Embassy estimates, Brussels would have to cut the deficit to 6 percent of GNP in 1987 if it is to have any

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chance of stabilizing the debt/GNP ratio before the next election due in 1989. Alternatively, the debt burden could be stabilized if real GNP growth were to average 4 percent annually over the next few years, but our estimates are only about half that rate. Consequently, we expect government debt to rise to perhaps 112 percent of GNP by 1990.

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We believe the budget deficit is having an increasingly negative impact on the economy, mainly by crowding out private investment. By 1984, private investment accounted for only 14 percent of GNP compared with 21 percent in 1974. The combination of falling private investment and government austerity has held economic growth to below 2 percent in each year of this decade, and probably will limit 1986 growth to about 1.3 percent.

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The budget plan for 1987 also will hinder efforts to reduce unemployment because it cuts programs that have helped to lower joblessness from over 13 percent last year to the current 11.6 percent. In addition, Brussels's plan to eliminate teaching positions is likely to strain government-labor relations as well as the unity of Martens's Flemish Social Christians. In the weeks encompassed by the Coalition's budget negotiations, there were numerous strikes by public employees, and we expect them to continue—albeit at a diminished level—for some time to come. Meanwhile, the need for more deficit-cutting measures leaves open the possibility of decreased stability in the governing coalition.

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Briefs

Energy

Iran's Difficulties in Boosting Oil Exports

Recent declines in oil prices and expectations of increased fighting later this year are pushing Tehran to increase the volume of oil exports. Iran scheduled sales of about 2 million b/d for the first half of July—an increase of 30 percent over normal levels. Actual gains, however, have been limited—despite a more aggressive pricing policy—because of intense competition from other Gulf states and the dying appeal of Iranian countertrade deals. Recent Iraqi attacks on oil facilities have also made it difficult for Tehran to meet its export goals. These attacks have contributed to shortages of Iranian light crude oil at Sirri Island, causing loading delays and some postponements of shipments.

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Chevron's Relations With Sudan

Chevron, one of the primary oil developers in Sudan, continues to slowly cut back operations and is contracting out remaining work. Company officials maintain that poor security and the insurgency in the south are no longer the primary reasons for reductions in operations—the declining price of oil prevents the company from developing new discoveries. Chevron claims the world price would have to rise to $25 per barrel to justify drilling. Recent meetings between the government and Chevron officials have affirmed the company's desire to retain good relations with Sudan despite the drawdown in operations. Nonetheless, with no immediate solution to the insurgency in sight, Chevron is unlikely to restart drilling and development, even if prices go up.

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International Finance

New Philippine IMF Negotiations Begin

Negotiations for a new IMF program—talks began in Manila this week—will probably be slow going. the Aquino government's first major negotiations with a foreign creditor will be contentious, more than likely delaying final IMF approval past September, when Manila had hoped to have an agreement in place. Planning Minister Monsod has warned IMF officials that Manila may still resort to selective debt repudiation if the Fund's restrictive targets for government spending undermine President Aquino's plans to deliver tangible economic benefits rapidly, particularly in areas contested by the Communist insurgents. According to the US Embassy, the Fund's top priority will be finding ways to stem Manila's roughly $2 billion budget deficit—more than 5 percent of projected national output this year. A significant reduction in Manila's red ink will require the government to restructure financially shaky

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government-owned banks and corporations whose subsidies equal almost the entire budget deficit. Although tax reforms were enacted earlier this month, these measures will raise no more than $350 million in new revenue. Foreign commercial creditors will postpone the final $350 million drawing on last year's financial rescue package until a new Fund program is negotiated. Although Manila's $1.5 billion foreign exchange reserves will probably allow it to ride out a temporary delay in new foreign financing, an IMF program is crucial in restoring foreign and domestic investor confidence. 25X1

Algerian Borrowing Prospects Wane

International lenders are increasingly wary of Algeria as a result of the country's declining petroleum revenues. Algiers has borrowed $700 million since February and plans to borrow another $200 million this year to soften the impact of domestic austerity. Nevertheless, 25X1 25X1 the success of Algeria's last syndication in mid-June stemmed primarily from the skillful management of the Arab Banking Corporation and a US bank rather than international interest in the loan. Soft oil market conditions threaten to cut Algeria's oil earnings in half, which would push the debt service ratio above 80 percent for the year. Moreover, since 1983 Algiers has abandoned its stated goal of reducing its foreign debt that probably exceeds $20 billion. At a minimum, further Algerian borrowing will be on less favorable terms—Algiers has received some of the best terms of any Third World country—and probably will have to be used to finance imports of basic necessities such as food rather than of capital goods. In addition, a prolonged slump in oil prices below $15 per barrel may force Algiers to pursue some form of debt relief before 1988. 25X1

International Trade

Mexico Seeking Stronger Latin American Trade Ties

Mexico will host a 21 July meeting in Acapulco of its Latin American Integration Association partners in an attempt to reactivate regional trade. Mexican officials plan to use the meeting to push for regional tariff preferences and greater financial cooperation to encourage trade among Latin American countries. Mexico's exports to other member countries dropped from $1 billion to $600 million between 1982 and 1985 despite bilateral trade agreements with all 10 member countries. Mexico City hopes to boost exports to its Latin trade partners to ease its trade deficit, but, in our judgment, trade improvements will be limited. Member countries lack the funds to increase imports significantly and are focusing instead on boosting their own exports. 25X1

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Global and Regional Developments

Initial Resolution on Hermes Spaceplane

In a victory for France, the European Space Agency (ESA) adopted a resolution on making the French-designed Hermes spaceplane an ESA program. ESA members will meet in October to define the program's stages, including division of work and financing. The French have long sought West German participation in Hermes, and, although Bonn voted for the resolution, it is not scheduled to make a final decision until this fall. The West German vote may reflect its growing support for greater European independence from US space programs. Current plans call for construction of two Hermes spaceplanes about one-fifth the size of the US shuttle, with initial launching in 1996. London took the lead to ensure that, unlike the Ariane program, ESA and not the French space agency will control Hermes. Financing for the $2.8 billion project—which must be decided by mid-1987 to keep the program on schedule—will probably, in part as least, have to come out of existing programs. A final decision this fall on Hermes most likely means that the British-initiated HOTOL—whose more advanced engine technology would allow use of a regular runway—will not be a part of ESA's initial spaceplane program.

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French Transfer of Communications Technology to USSR

An advanced telephone exchange sold by France to the USSR in 1982 over US objections is now operational in Leningrad, according to French press reports, and incorporates even more modern technology than was envisioned in the original deal. The French Government bypassed COCOM in 1982 in authorizing the sale to the Soviets of MT-20 system hardware and manufacturing technology. In 1982, the French said that, to reduce the strategic risk, they would limit the technology Thomson could provide to the Soviets in the MT-20. A more modern exchange—the E 10-MT—was eventually substituted when the original supplier, Thomson-CSF, merged with another French electronics firm, CIT-Alcatel. The E 10-MT has more than twice the call-processing capability of the MT-20, offering the Soviets further improvements in the quality of communications for military and government users. France did not notify COCOM of the original sale and is unlikely to volunteer information on the capability of the system ultimately installed.

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New Soviet Tack on Pacific Basin Cooperation

The USSR hopes to attend the fifth Pacific Economic Cooperation Conference meeting in Vancouver this fall as an observer to discuss cooperation between market and nonmarket economies, according to the US Embassy in Moscow. A Soviet academician told the Embassy that Soviet interest may represent a softening toward the Pacific Basin Initiative, which Moscow previously denounced as militaristic. The Soviets have long tried to expand economic and political ties to the Pacific Basin, especially ASEAN, but have usually focused on countering Western proposals and excluding the United States. It is possible that ASEAN's lukewarm reception for General Secretary Gorbachev's proposal last April on economic cooperation, and Soviet difficulties in penetrating Pacific Basin markets may have led Moscow to try to work within

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existing regional economic processes. Soviet participation may create confusion within the Conference, which is ostensibly nongovernmental and has had trouble with the issue of participation by centrally planned economies. Moscow is aware of the problems its participation may raise, and may be using the issue to continue its efforts to frustrate Western economic cooperation with Asia.

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Algerian Aircraft Negotiations

Payment flexibility probably will determine whether Airbus or US companies win the contract for up to 11 new aircraft for Algeria's national airline. Air Algerie officials have been displeased with French after-sale support for Algeria's two Airbus A-310s. Nevertheless, the sharp drop in Algerian crude oil prices to about $10 per barrel—hydrocarbon exports account for virtually all foreign exchange earnings—make the counterpurchase of crude oil and gas an essential part of any purchase agreement. Algiers almost certainly will use upcoming gas negotiations with France—one of Algeria's largest gas customers—as a bargaining chip. So far, Airbus has concentrated its marketing efforts on government officials such as the Minister of Transportation and bypassed Air Algerie. The final decision, due later this year, could influence pending aircraft sales in neighboring Morocco and Tunisia.

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National Developments

Developed Countries

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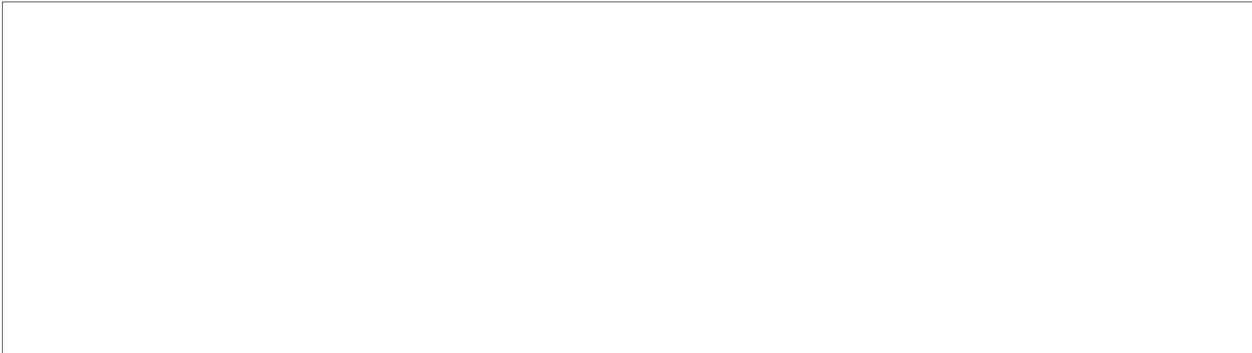

25X1

Japanese Shipbuilders Press for Cartel

Weak demand in the world shipbuilding industry—that has already forced shipbuilders to cut prices to one-half the 1981 level—and the strong yen have led Japanese shipbuilders to propose the formation of a "recession cartel" to meet the competitive challenge posed by South Korea. If the Japan Fair Trade Commission determines that the industry's existence is threatened by a large and sustained imbalance between supply and demand, firms could voluntarily form a cartel to set prices and production limits without being prosecuted under the Anti-Monopoly Act. Proof of the industry's endangered future may be difficult, however, because firms that diversified during a previous cartel that ended in 1982 are not showing overall losses. Even if the firms cut back production by the proposed 20 percent, Japan would remain as the world's leading shipbuilder, but its market share—now 49 percent—will probably continue to drop.

25X1

Less Developed Countries

Inflated Egyptian Expectations for US Aid

Egypt's government-supported press is raising popular expectations of increased US financial aid to unrealistic levels. The semiofficial media claimed recently that senior Egyptian officials visiting Washington had "successfully resolved" contentious issues such as Egypt's military debt and had secured solid US backing for Cairo's economic reform efforts. In some cases, the articles appeared before discussions were concluded. Egyptian officials may be manipulating public opinion in an attempt to extract additional support from the United States—a ploy that could have serious consequences. Egypt's acute and worsening hard currency shortage will almost certainly force President Mubarak to impose unpopular austerity measures if Egypt does not receive massive infusions of aid—including cuts in near-sacrosanct food subsidies. Results short of the public's inflated hopes of a bailout would heighten anti-US sentiments, reinforce perceptions that Mubarak is incompetent, and increase the risk of civil unrest.

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Lebanese Unions Call Strikes

In reaction to the rapidly declining economy, the General Confederation of Lebanese Workers (GCLW) called a nationwide 24-hour strike on 3 July, halting all commercial, transport, and media activity. In addition to a 10 July sit-in staged by labor and public unions, journalists, and lawyers at Beirut's UNESCO building, the GCLW scheduled widespread demonstrations for 17 July and vows to call a general, open-ended strike, if the government fails to offer positive economic reforms. Union goals transcend confessional politics and are moderate in tone. The demonstrations were prompted by high inflation—estimated by the US Embassy at 20 percent per month—and government inability to handle mounting internal debt, which is expected to increase 50 percent in 1986 and add to inflationary pressures. This month's strikes represent the first collective response by Lebanon's formerly prosperous, but largely powerless, urban middle class.

25X1

Obstacles to Nigerian Economic Reform

President Babangida's efforts to revitalize his 10-month-old regime hinge on his recently announced package of economic and political reforms, but divisions within the ruling military council, an inept bureaucracy, and popular opposition probably will derail the proposals. The US Embassy reports that commercial creditors were mildly encouraged by Babangida's pledge to liberalize trade, sell state-owned companies, and institute a two-tier foreign exchange market that would in effect devalue the currency.

25X1

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Babangida played down the potential role of the IMF when he announced his new economic program late last month, according to the US Embassy. Babangida's initiatives have renewed the government's sense of direction, but his tactic of stalling on difficult decisions or obscuring them under layers of bureaucracy makes successful implementation more difficult. Babangida so far has not provoked the vociferous public opposition that forced him to abandon IMF negotiations last year, but he probably still lacks the consensus needed to resolve crucial economic and social problems.

25X1

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Uganda Barters Coffee for Supplies

President Museveni is relying almost exclusively on barter arrangements to supply his war-torn country with military supplies and other commodities, Uganda has made barter deals with Cuba, East Germany, Libya, and Egypt since Museveni came to power in January.

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The trade deals are in line with Museveni's pledge to deal with all countries except Israel and South Africa, and

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also reflects Libyan and Egyptian willingness to meet his immediate need for military supplies.

25X1

Liberian Economic Developments

Despite progress toward implementing US-recommended economic reforms, a recent spending binge prevented Liberia from making a payment on official US loans last month, triggering Brooke Amendment sanctions that could block disbursements of most types of US assistance, according to the US Embassy. Liberia, meanwhile, has been able to reduce domestic tensions by paying back-salaries with recently issued local currency. Monrovia probably will make the loan payment soon, but its resolve to pursue economic reform will be tested later this summer once the new currency is depleted and the government is again faced with the need to reduce expenditures drastically. Stringent austerity measures or renewed delays in wage disbursements could aggravate labor grievances and strengthen support for the opposition.

25X1

Pakistani Provincial Minister Hikes Minimum Wage

The level of concern many Pakistani officials have toward opposition leader Bhutto was recently demonstrated by the impromptu announcement by the Chief Minister of Sind Province that the minimum wage would be doubled to $63 per month—matching a proposal by Bhutto. The US Consulate in Karachi reports that a Sind Department of Labor official said that the proposal took government officials by surprise. The higher minimum wage would, in fact, leave many workers ineligible for death and injury benefits. Passage by the provincial assembly of the required legislation is doubtful due to the low priority of labor issues within the assembly.

25X1

Communist

Soviet Defense Industry Support for the Civilian Economy

In a recent speech, Party Secretary and Politburo member Lev Zaykov said that the leadership had decided "to make more active use" of defense industries in the 1986-90 plan to produce civil machinery and consumer goods. At the Supreme Soviet meeting last month, Chairman of the Council of Ministers Ryzhkov spoke on the leadership's intention to involve all machine-building ministries, including the defense industry ministries, in production for light industry. The defense industries produce machine tools, computers, microelectronics, and telecommunications equipment and could make a major contribution to the modernization campaign. The Minister of the Shipbuilding Industry recently indicated that he was being tasked to increase production of consumer goods and complained about not being allocated enough computers to fulfill his modernization tasks. Pressure on the defense industries to support the modernization campaign and consumer goods program apparently is building. Earlier leadership statements had called on defense industries only to share their management expertise with the rest of Soviet industry. Help to the civilian sector may limit the pace of defense-industrial modernization, but it

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does not necessarily imply any cuts in weapons production. Because of major investments since the mid-1970s, the defense industries are well positioned to accommodate the relatively slow growth in weapons production projected by the US Intelligence Community.

25X1

Soviet Minister of Machine Tool Industry Replaced

Nikolay Panichev has replaced Boris Balmont as Minister of the Machine Tool and Tool Building Industry, according to TASS. Balmont, who had held the post since 1981, was said to have retired, although he is only 59. The change reflects General Secretary Gorbachev's determination to root out resistance to his industrial modernization program. The Ministry has come under public attack for low-quality production, and Premier Ryzhkov criticized Balmont last month for failure to support managerial reorganization intended to spur technological innovation and to raise efficiency. Balmont had also proposed performance targets for his Ministry that were less ambitious than national plans. Panichev is a strong proponent of rapid retooling and modernization of the machine tool industry. He favors the importation of Western robots and control systems for automated equipment.

25X1

New Soviet Airliner Programs

The Soviets are developing three new civilian transport aircraft they claim will be superior to Western designs. The aircraft will emphasize efficiency and fuel economy and will incorporate technologies roughly equivalent to current Western state of the art—including digital avionics, sidestick controls, composite materials, and turbofan engines. The new Soviet aircraft are unlikely to match the performance of those in the West or to offer much sales competition except in client states. Previous Soviet experience suggests the aircraft will not meet Moscow's performance claims, in part because the USSR has been slower than the West in introducing new manufacturing technologies. Nevertheless, the transports will probably give Aeroflot additional flexibility in augmenting military cargo aircraft in carrying troops and, to a lesser extent, equipment for a variety of domestic and international missions.

25X1

East German Economy on Target in First Half

East Germany reported last week that most major economic goals were met for the first half of the year. Produced national income and industrial production both were 4.3 percent above year-earlier levels, about in line with annual targets. East Berlin claimed that labor productivity in industry rose 8.6 percent, more than planned—high-tech sectors showed the greatest increases. Computer output reportedly rose 112 percent and integrated circuits 30 percent. Although aggregate growth figures undoubtedly are inflated by price increases, the economy apparently is continuing its fairly strong performance of the past three years. The East Germans probably continued their recent pattern of hard currency trade surplus in the first half The reported acceleration of the economy in June suggests that, like last year, second-half growth rates may be somewhat higher. Fulfillment of most annual

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goals would keep growth high by East European standards and would confirm in East German leaders' minds the wisdom of their current economic strategy.

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Yugoslav Bread Price Rise Revoked

The government last week reversed a two-day-old increase in bread and flour prices. It noted the price rise—which averaged 60 percent—would adversely affect workers and blamed regional authorities for improperly handling the decision. The rollback follows public warnings by some officials in poorer southern Yugoslavia that the price hikes could increase public discontent. Food prices in June were 109 percent above levels a year earlier. Such a quick turnabout is highly unusual and spoils the impression of decisiveness and organization that Premier Mikulic's new government is trying to project. Belgrade outlined its broad new price policy only two weeks ago and is already considering other changes. Despite desiring government action on the economy, the public remains unwilling to accept subsidy reductions. Mikulic will have to improve coordination with regional and public bodies to implement other price policies, as well as his broader program for economic recovery.

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Directorate of
Intelligence

Economic & Energy Indicators

18 July 1986

DI EEI 86-015
18 July 1986

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Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States	2.6	-7.2	5.9	11.6	2.3	0.5	-10.9	5.9	-7.4
Japan	1.0	0.4	3.5	11.1	4.6	0.7	-2.9	0	4.0
West Germany	-2.3	-3.2	0.3	2.4	4.8	-0.6	-23.7	72.6	
France	-2.6	-1.5	1.1	2.5	0.5	-4.9	0	42.7	
United Kingdom	-3.9	2.1	3.9	1.3	4.7	1.9	-1.1	14.0	
Italy	-1.6	-3.1	-3.2	3.3	1.2	11.7	44.9	16.4	
Canada	0.5	-10.0	5.3	8.8	4.3	0	-31.9	41.1	

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985				1986
					Year	2d Qtr	3d Qtr	4th Qtr	1st Qtr
United States	2.5	-2.1	3.5	6.5	2.2	1.1	3.0	0.7	2.9
Japan	4.1	3.1	3.3	5.0	4.5	5.8	3.0	5.5	-2.1
West Germany	-0.2	-1.0	1.5	3.0	2.4	6.8	6.8	-0.2	-6.5
France	0.2	1.8	0.7	1.5	1.3	3.1	3.7	2.1	
United Kingdom	-1.4	1.9	3.4	2.6	3.3	6.4	-1.1	1.8	2.9
Italy	0.2	-0.5	-0.2	2.8	2.3	5.8	1.0	2.3	5.3
Canada	3.3	-4.4	3.3	5.0	4.5	3.2	7.0	5.4	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Apr	May	Jun
United States	10.3	6.2	3.2	4.3	3.5	1.4	-3.3	2.2	
Japan	4.9	2.6	1.8	2.3	2.0	0.1	0.7	1.3	-0.7
West Germany	6.0	5.3	3.3	2.4	2.2	-0.9	-1.2	0.2	0.6
France	13.3	12.0	9.5	7.7	5.8	0.8	1.8	2.6	5.0
United Kingdom	11.9	8.6	4.6	5.0	6.1	4.5	-1.5	1.0	1.1
Italy	19.3	16.4	14.9	10.6	8.6	6.2	3.5	5.5	7.6
Canada	12.5	10.8	5.8	4.3	4.0	4.8	2.7	5.2	

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Money Supply, M-1 [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Mar	Apr	May
United States [b]	7.1	6.6	11.2	7.0	9.1	7.9	15.0	15.5	25.9
Japan	3.7	7.1	3.7	2.8	5.0	7.7	13.6	9.4	8.9
West Germany	1.1	3.6	10.2	3.3	4.4	9.8	44.9	1.9	-5.8
France	12.2	13.9			8.7	4.8	61.3	-9.7	-10.1
United Kingdom	NA	NA	13.0	14.7	16.7	9.0	34.8	30.5	65.4
Italy	11.2	11.6	15.1	12.3	13.7				
Canada	3.8	0.7	10.2	3.2	4.1	-13.3	10.9	-14.0	9.9

[a] Based on amounts in national currency units.
[b] Including M1-A and M1-B.

Unemployment Rate [a]

Percent seasonally adjusted

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	Apr	May	Jun
United States	7.5	9.6	9.4	7.4	7.1	6.9	7.0	7.0	7.2	7.0
Japan	2.2	2.4	2.7	2.7	2.6	2.8	2.6	2.9	2.7	
West Germany	5.6	7.7	9.2	9.1	9.3	9.0	10.2	9.0	8.5	8.4
France	7.6	8.4	8.6	9.6	9.9	9.7	9.8	9.9	9.9	10.0
United Kingdom	10.0	11.6	12.4	12.4	12.9	12.9	13.1	13.2	13.3	
Italy	8.4	9.1	9.9	10.4	10.7	11.0	11.5			
Canada	7.5	11.1	11.9	11.3	10.5	10.2	9.7	9.6	9.6	9.1

[a] Unemployment rates for France are estimated.

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Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	Mar	Apr	May
United States [b]										
Exports	233.5	212.3	200.7	217.6	213.3	52.4	92.9	32.0	28.8	30.3
Imports	261.0	244.0	258.0	325.7	345.3	89.2				
Balance	-27.5	-31.6	-57.4	-108.1	-132.0	-36.8				
Japan										
Exports	149.6	138.2	145.4	168.1	173.9	47.2	48.1	15.8	16.7	17.6
Imports	129.5	119.6	114.0	124.1	118.0	30.3	30.2	9.4	9.7	9.1
Balance	20.1	18.6	31.4	44.0	55.9	16.8	17.9	6.4	7.0	8.5
West Germany										
Exports	175.4	176.4	169.5	171.9	184.3	51.3	55.0	17.4	21.8	17.6
Imports [c]	163.4	155.3	152.9	153.1	158.9	43.8	45.0	14.2	17.2	14.4
Balance	11.9	21.1	16.6	18.8	25.3	7.5	10.1	3.2	4.6	3.2
France										
Exports	106.3	96.4	95.1	97.5	101.9	28.8	30.4	9.9	9.9	9.7
Imports	115.6	110.5	101.0	100.3	104.5	29.2	30.3	10.2	10.6	10.0
Balance	-9.3	-14.0	-5.9	-2.8	-2.6	-0.4	0.1	-0.4	-0.7	-0.3
United Kingdom										
Exports	102.5	97.1	92.1	93.6	100.9	27.3	26.2	8.4	9.1	8.9
Imports	94.6	93.1	93.7	99.3	103.5	27.6	28.3	10.2	9.5	9.9
Balance	7.9	4.0	-1.6	-5.7	-2.5	-0.3	-2.0	-1.8	-0.4	-1.0
Italy										
Exports	75.4	73.9	72.8	73.5	78.8	22.5	23.4	7.7	8.2	8.1
Imports	91.2	86.7	80.6	84.4	90.8	26.1	26.5	8.5	8.2	7.9
Balance	-15.9	-12.8	-7.9	-10.9	-11.9	-3.6	-3.1	-0.8	0	0.2
Canada										
Exports	70.5	68.5	73.7	86.5	88.0	22.5	21.6	6.7	7.4	7.0
Imports	64.4	54.1	59.3	70.6	75.7	19.6	19.8	5.8	6.6	6.4
Balance	6.1	14.4	14.4	15.9	12.3	2.9	1.8	1.0	0.8	0.6

[a] Seasonally adjusted.
[b] Imports are customs values.
[c] Imports are c.i.f.

Current Account Balance [a]

Billion US $

	1981	1982	1983	1984	1985		1986			
					Year	4th Qtr	1st Qtr	Mar	Apr	May
United States	6.3	-8.1	-46.6	-106.5	-117.7	-33.7	-33.7			
Japan	4.8	6.9	20.8	35.0	49.2	16.0	12.7	6.9	7.9	7.7
West Germany	-6.8	3.3	4.3	6.7	13.8	7.4	6.9	2.1	3.6	2.7
France	-4.7	-12.1	-4.9	-0.8	0.9	1.0	1.0			
United Kingdom	15.3	8.5	4.7	1.9	5.0	1.1	0.7	-1.0	0.7	0.1
Italy	-8.6	-5.7	0.6	-2.9						
Canada	-5.0	2.1	2.4	2.6	-0.4	-0.7	-2.1			

[a] Seasonally adjusted; converted to US dollars at current market rates of exchange.

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Export Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Feb	Mar	Apr	May
United States	9.2	1.5	1.0	1.4	−0.7	−12.0	7.7	−2.4	2.1
Japan	5.5	−6.4	−2.4	0.2	−0.6	111.0	−5.7	48.1	
West Germany	−14.9	−2.8	−3.2	−7.1	0	60.5	32.7	0.1	20.3
France	−12.0	−5.5	−4.8	−2.9	2.5	34.7	28.0		
United Kingdom	NA	NA	−6.2	−5.1	2.3	−16.0	26.4	6.0	9.1
Italy	−7.8	−3.0	−4.4	−5.2	−0.3				
Canada	3.9	−2.0	0.2	−0.4	−3.5	17.2	−10.1	19.1	−2.5

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986			
						Feb	Mar	Apr	May
United States	5.3	−2.0	−3.7	1.7	−2.4	−9.2	−29.6	−6.8	−2.4
Japan	3.6	−7.4	−5.0	−2.8	−4.3	46.8	−66.7	−59.0	
West Germany	−8.6	−4.7	−5.2	−4.8	−1.5	12.7	−2.5	−23.5	−7.9
France	−7.8	−7.2	−7.0	−3.8	−0.3	19.7	16.9		
United Kingdom	NA	NA	−5.7	−4.5	0.5	−2.0	26.2	−3.6	3.9
Italy	1.0	−5.3	−6.6	−3.7	−1.0				
Canada	8.7	−1.1	0.6	1.0	−2.1	6.5	0	21.1	−2.6

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Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985	1986				
						1st Qtr	Mar	Apr	May	Jun
Trade-Weighted										
United States	10.5	10.6	5.8	9.1	6.3	–17.8	–20.3	–4.5	–13.7	
Japan	9.3	–5.7	10.4	6.2	6.8	26.8	26.2	22.1	81.8	
West Germany	–2.1	7.0	5.8	1.0	1.7	8.5	4.0	2.7	11.3	
France	–5.1	–6.1	–4.7	–2.1	2.7	5.8	2.0	–31.1	–3.1	
United Kingdom	2.5	–2.1	–5.0	–2.5	2.0	–26.0	2.5	38.0	11.8	
Italy	–9.2	–5.1	–1.6	–3.1	–3.8	5.5	4.2	–0.1	9.3	
Canada	0.3	0.2	2.3	–2.3	–3.6	–13.1	–5.6	11.2	6.2	
Dollar Cost of Foreign Currency										
Japan	2.7	–12.9	4.6	0	–0.3	32.2	33.4	22.8	42.8	–2.2
West Germany	–24.6	–7.2	–5.2	–11.5	–3.3	31.3	26.1	3.7	19.5	–1.0
France	–28.7	–20.8	–15.9	–14.7	–2.7	29.7	23.7	–39.1	15.7	–2.8
United Kingdom	–13.2	–13.4	–13.3	–11.9	–3.0	1.7	40.3	28.7	19.3	–7.7
Italy	–32.8	–18.8	–12.3	–15.6	–8.6	30.1	26.2	–4.7	18.8	–2.0
Canada	–2.5	–2.9	0.1	–5.1	–5.4	–6.9	4.1	13.1	6.4	–13.1

Money Market Rates

Percent

	1981	1982	1983	1984	1985	1986				
						1st Qtr	2nd Qtr	Apr	May	Jun
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.16	7.68	6.77	6.67	6.75	6.88
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.52	6.38	NA	6.12	5.98	NA
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	5.40	4.51	4.52	4.47	4.55	4.55
France interbank money market (3 months)	15.47	14.68	12.51	11.74	9.97	8.96	7.41	7.55	7.27	7.41
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.21	12.26	10.09	10.41	10.14	9.72
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	14.95	16.00	12.71	13.66	12.50	11.97
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	9.71	11.08	9.03	9.52	8.78	8.80
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	8.41	7.91	7.00	6.95	6.99	7.07

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Agricultural Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Apr	May	Jun
Bananas Fresh imported, (Total world, $ per metric ton)	214.0	217.0	232.0	243.0	110.3	109.8	106.8	109.2	NA
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b. US Ports)	112.4	107.4	111.1	101.0	96.6	97.6	93.5	91.2	89.3
United States (Wholesale steer beef, midwest markets)	100.0	101.4	97.6	100.9	90.7	87.8	83.4	85.8	81.5
Cocoa (¢ per pound)	89.8	74.3	92.1	106.2	98.7	95.7	84.9	81.4	81.4
Coffee ($ per pound)	1.28	1.40	1.32	1.44	1.43	2.01	1.92	1.77	1.51
Corn (US #3 yellow, c.i.f. Rotterdam, $ per metric ton)	150	123	148	150	125	116	113	117	118
Cotton (World Cotton Prices, "A" index, c.i.f. Osaka, US ¢/lb.)	72.69	74.48	85.71	63.91	57.87	53.60	49.28	46.58	40.67
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	571	445	502	730	501	289	242	237	244
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	632	481	514	514	484	453	440	323	293
Thai SWR (100% grade B c.i.f. Rotterdam)	573	362	339	310	249	236	225	221	226
Soybeans (US #2 yellow, c.i.f. Rotterdam, $ per metric ton)	288	244	282	283	225	218	213	215	210
Soybean Oil (Dutch, f.o.b. ex-mill, $ per metric ton)	507	447	527	727	571	407	349	343	351
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	252	219	238	197	157	188	187	184	181
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢ per pound)	16.93	8.42	8.49	5.18	4.04	5.83	8.36	7.64	6.36
Tea Average Auction (London) (¢ per pound)	91.0	89.9	105.2	156.6	90.0	86.4	91.3	85.9	79.7
Wheat (US #2. DNS c.i.f. Rotterdam, $ per metric ton)	210	187	183	182	169	172	172	163	140
Food Index [a] (1980=100)	88	78	86	92	81	95	98	95	88

[a] The food index is compiled by *The Economist* for 14 food commodities which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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Industrial Materials Prices

	1981	1982	1983	1984	1985	1986			
						1st Qtr	Apr	May	Jun
Aluminum (¢ per pound)									
Major US producer	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0	81.0
LME cash	57.4	44.9	65.1	56.8	47.2	51.4	52.7	52.8	53.7
Chrome Ore (South Africa chemical grade, $ per metric ton)	53.0	50.9	50.0	50.0	43.9	40.0	40.0	40.0	40.0
Copper [a] (bar, ¢ per pound)	79.0	67.1	72.0	62.4	64.5	64.5	65.0	64.4	64.1
Gold ($ per troy ounce)	460.0	375.5	424.4	360.0	317.2	342.6	339.9	342.6	342.5
Lead [a] (¢ per pound)	32.9	24.7	19.3	20.0	17.7	16.7	16.8	17.0	19.0
Manganese Ore (48% Mn, $ per long ton)	82.1	79.9	73.3	69.8	68.4	67.2	64.8	64.8	64.8
Nickel ($ per pound)									
Cathode major producer	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	2.7	2.2	2.1	2.2	2.2	1.8	1.8	1.8	1.9
Platinum ($ per troy ounce)									
Major producer	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	446.0	326.7	422.6	358.2	291.0	383.1	416.0	412.0	432.3
Rubber (¢ per pound)									
Synthetic [b]	47.5	45.7	44.0	44.4	44.1	42.8	38.5	39.7	NA
Natural [c]	56.8	45.4	56.2	49.6	42.0	41.7	39.2	40.1	41.0
Silver ($ per troy ounce)	10.5	7.9	11.4	8.1	6.1	5.9	5.2	5.1	5.2
Steel Scrap [d] ($ per long ton)	92.0	63.1	73.2	86.4	74.4	74.0	73.2	71.5	NA
Tin [a] (¢ per pound)	641.4	581.6	590.9	556.6	543.2	357.4	257.9	249.3	244.2
Tungsten Ore (contained metal, $ per metric ton)	18,097	13,426	10,177	10,243	10,656	8,673	7,752	7,474	7,474
US Steel (finished steel, composite, $ per long ton)	543.5	567.3	590.2	611.6	617.8	551.2	551.2	554.8	NA
Zinc [a] (¢ per pound)	38.4	33.7	34.7	41.5	35.4	28.5	29.8	31.9	36.5
Lumber Index [e] (1980=100)	95	84	114	105	103	100	129	121	112
Industrial Materials Index [f] (1980=100)	85	71	82	76	69	68	70	70	70

[a] Approximates world market price frequently used by major world producers and traders, although only small quantities of these metals are actually traded on the LME. As of February 1986 tin prices from the Penang market.
[b] S-type styrene, US export price.
[c] Quoted on New York market.
[d] Average of No. 1 heavy melting steel scrap and No. 2 bundles delivered to consumers at Pittsburgh, Philadelphia, and Chicago.
[e] This index is compiled by using the average of 10 types of lumber whose prices are regarded as bellwethers of US lumber construction costs.
[f] The industrial materials index is compiled by *The Economist* for 18 raw materials which enter international trade. Commodities are weighted by 3-year moving averages of imports into industrialized countries.

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World Crude Oil Production Excluding Natural Gas Liquids

Thousand b/d

	1981	1982	1983	1984	1985 [a]	1986 [a]			
						1st Qtr	Feb	Mar	Apr
World	**55,837**	**53,092**	**52,633**	**53,691**	**53,356**	**54,044**	**54,709**	**53,693**	**53,520**
Non-Communist countries	**41,602**	**38,810**	**38,228**	**39,257**	**38,692**	**39,758**	**40,423**	**39,407**	**39,181**
Developed countries	12,886	13,276	13,864	14,302	14,730	15,022	15,070	14,872	13,949
United States	8,572	8,658	8,680	8,735	8,933	8,898	8,934	8,821	8,791
Canada	1,285	1,270	1,356	1,411	1,457	1,480	1,480	1,480	1,300
United Kingdom	1,811	2,094	2,299	2,535	2,533	2,711	2,699	2,699	2,554
Norway	501	518	614	700	785	856	870	860	319
Other	717	736	915	921	1,022	1,077	1,087	1,012	985
Non-OPEC LDCs	6,036	6,633	6,823	7,515	7,845	7,556	7,393	7,605	7,712
Mexico	2,321	2,746	2,666	2,746	2,733	2,376	2,400	2,219	2,358
Egypt	598	665	689	827	874	758	600	800	760
Other	3,117	3,222	3,468	3,942	4,238	4,422	4,393	4,586	4,594
OPEC	22,680	18,901	17,541	17,440	16,117	17,180	17,960	16,930	17,520
Algeria	803	701	699	638	645	602	550	600	600
Ecuador	211	211	236	253	280	275	220	300	300
Gabon	151	154	157	152	153	160	160	150	160
Indonesia	1,604	1,324	1,385	1,466	1,235	1,223	1,300	1,175	1,215
Iran	1,381	2,282	2,492	2,187	2,258	1,890	2,200	1,800	2,000
Iraq	993	972	922	1,203	1,437	1,732	1,880	1,650	1,500
Kuwait [b]	947	663	881	912	862	1,169	1,100	1,400	1,400
Libya	1,137	1,183	1,076	1,073	1,069	1,000	1,000	900	900
Neutral Zone [c]	370	317	390	410	355	276	300	230	240
Nigeria	1,445	1,298	1,241	1,393	1,464	1,417	1,400	1,550	1,650
Qatar	405	328	295	399	302	352	300	350	180
Saudi Arabia [b]	9,625	6,327	4,867	4,444	3,290	4,256	4,600	4,000	4,600
UAE	1,500	1,248	1,119	1,097	1,146	1,287	1,400	1,305	1,255
Venezuela	2,108	1,893	1,781	1,813	1,621	1,541	1,550	1,520	1,520
Communist countries	**14,235**	**14,282**	**14,405**	**14,434**	**14,664**	**14,286**	**14,286**	**14,286**	**14,339**
USSR	11,800	11,830	11,864	11,728	11,749	11,350	11,350	11,350	11,390
China	2,024	2,042	2,121	2,286	2,496	2,496	2,496	2,496	2,496
Other	411	410	420	420	419	440	440	440	453

[a] Preliminary.
[b] Excluding Neutral Zone production, which is shown separately.
[c] Production is shared equally between Saudi Arabia and Kuwait.

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Big Seven: Inland Oil Consumption

Thousand b/d

	1981	1982	1983	1984	1985	1986				
						Jan	Feb	Mar	Apr	May
United States [a]	16,058	15,296	15,184	15,708	15,697	15,923	16,056	16,188	15,833	15,843
Japan	4,444	4,204	4,193	4,349	4,121	4,661	5,005	4,532	3,949	
West Germany	2,120	2,024	2,009	2,012	2,060	2,096	2,406	2,141		
France	1,744	1,632	1,594	1,531	1,493	1,626	2,009	1,525	1,679	1,222
United Kingdom	1,325	1,345	1,290	1,624	1,402	1,286	1,485	1,482		
Italy [b]	1,705	1,618	1,594	1,513	1,516	1,718	1,855	1,535	1,495	
Canada	1,617	1,454	1,354	1,348	1,344	1,346	1,374	1,183	1,239	

[a] Including bunkers, refinery fuel, and losses.
[b] Principal products only prior to 1981.

Big Seven: Crude Oil Imports

Thousand b/d

	1981	1982	1983	1984	1985	1986				
						Jan	Feb	Mar	Apr	May
May										
United States	4,406	3,488	3,329	3,402	3,216	3,329	2,993	3,000	3,701	4,085
Japan	3,919	3,657	3,567	3,664	3,377	3,126	4,273	3,673		
West Germany	1,591	1,451	1,307	1,335	1,284	1,321	1,225	1,429		
France	1,804	1,596	1,429	1,395	1,476	1,430	1,420	1,380	1,608	
United Kingdom	736	565	456	482	523					
Italy	1,816	1,710	1,532	1,507	1,462					
Canada	521	334	247	244	283	353	423			

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Crude Oil Prices

US $ per barrel

	1980	1981	1982	1983	1984	1985	1986			
							1st Qtr	2nd Qtr	May	Jun
OPEC Average [a] (Official Sales Price)	30.87	34.50	33.63	29.31	28.70	28.14	28.09	28.08	28.07	28.11
World Average Price	NA	NA	NA	NA	NA	27.16	20.67	NA	14.06	NA

[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil. Weighted by the volume of production.

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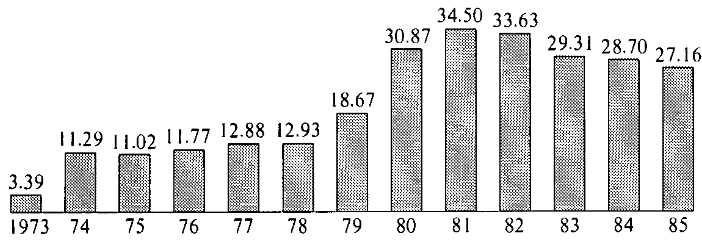
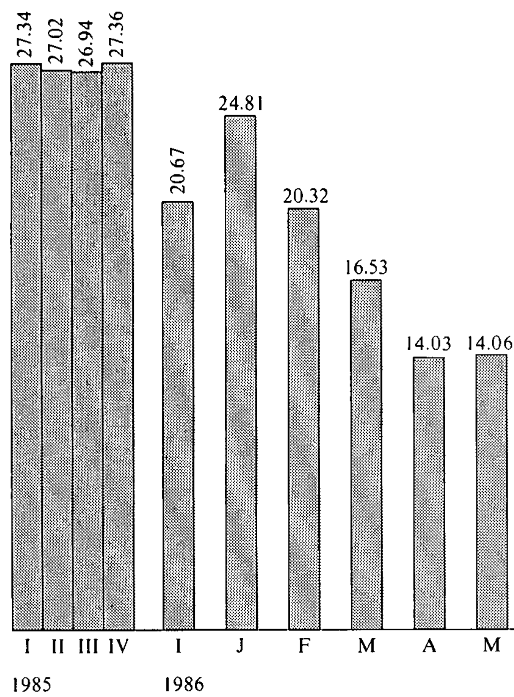
Average Crude Oil Sales Price[a]

US $ per barrel





[a] The 1973 price is derived from posted prices, 1974-84 prices are derived from OPEC official sales prices, and beginning in 1985, prices are a measure of average world sales prices.

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