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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

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MEMORANDUM FOR: Mr. Milton Kovner
EUR/SOV
Department of State

SUBJECT : Soviet Hard Currency Trade in 1974 and Prospects for 1975

1. Recently published Soviet statistics reveal that the USSR sustained a hard currency trade deficit of $911 million in 1974 rather than the $1 billion surplus projected last winter. The basic balance nonetheless remained in surplus.

2. Soviet exports generally turned out as expected. The value of Soviet hard currency receipts increased by 58% to $7.6 billion. The average price of exports almost doubled in 1974, but the volume of several key exports fell.

3. Despite a $1 billion decline in imports of grain and other food, the total value of hard currency imports jumped by 30% to $8.5 billion. This increase was caused, in part, by the higher prices Moscow was forced to pay for many products and, in part, by the ability of the Soviet Union to maintain or even increase the import volume of many higher priced products (see Table).

4. Moscow easily covered its 1974 trade deficit by selling gold and drawing on Western credits. In 1974 the USSR's basic balance -- the balance of current and long-term capital transactions -- was in

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USSR: Hard Currency Imports

	1973	1974	Change
			Million US $
TOTAL	6,566	8,541	1,974
Machinery and equipment	1,739	2,333	594
Pipe	428	654	229
Other rolled ferrous metals	455	1,217	762
Plastics	95	331	236
Other chemical products	184	396	212
Grain	1,423	523	-900
Other food	665	559	-106
Manufactured consumer goods	202	261	59
Other	1,375	2,267	892

surplus by more than $950 million. Higher payments on medium- and long-term loans and a drop in gold sales reduced the receipts of hard currency from non-trade transactions.

USSR: Hard Currency Balance

	1973	1974
Merchandise trade	-1,748	-911
Gold sales	1,000	700
Other current account	276	347
Capital account 1/	1,013	820
Basic balance	541	956

1. Excludes short term capital and medium-term Eurocurrency transactions.

5. Moscow will sustain a much larger trade deficit in 1975. Soviet exports to major Western trading partners are running roughly 10% below last year's averages, and sluggish Western import demand should limit any upturn in sales during the remainder of the year. Soviet imports, in contrast, will climb substantially again in 1975. Statistics of several major Soviet trading partners indicate that Soviet imports are running 50% above last year's average as Moscow maintains the high import level reached during the second half of 1974.

6. Imports of Western machinery and equipment will account for much of the rise, as Western firms make delivery against a portion of the $6.5 billion in equipment ordered by Moscow in 1973-74. Heavy grain imports will also boost imports substantially this year. Soviet grain imports, depending upon actual delivery dates, could reach $1.4 billion in 1975 -- $800 million more than in 1974.

7. Moscow should be able to finance the expected 1975 deficit easily, even if it runs to $2 billion or more. Drawings on medium- and long-term Western credits should exceed $2.5 billion in 1975, with net credits rising to $1.2 billion. The Soviets have twice gone to the Eurodollar market since December 1974, raising a total of $350 million in medium- and long-term loans. The USSR also continues to increase its domestic production of gold -- over 300 tons in 1975 -- and it has an estimated 1,900 tons in reserve. At the current market prices of $165 per ounce, sales of just 200 tons would net the Soviet more than $1 billion.

Office of Economic Research