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THE SOVIET BALANCE OF PAYMENTS IN HARD CURRENCIES

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INTRODUCTORY:

The Soviets' problem with their hard currency balance of payments is how to finance the trade deficit, that is, how to pay for the chronic surplus of imports over exports in the most important part of their trade with the West.

This has become an increasingly serious problem as the level of these deficits has plunged from some $300 million in 1960 to some $600 million in 1964, and in 1965 the deficit was again a sizeable $300 million.

It is the trade deficit which has necessitated the large sales of gold, which in turn have depleted the stock of the gold reserve to a point which the Soviets themselves must now regard as precariously low.

BASIC FACTS BOARD

HARD CURRENCY TRADE:

To turn to the board of basic facts, we are talking about a small but significant segment of Soviet trade.

(Note the typical trade deficit)

THE PAYMENTS BALANCE:

The hard currency balance of payments of the USSR has an essential simplicity in that only two items in the current account and only two items in the capital account make up so large a portion of the total value of all transactions.

FINANCING THE DEFICIT: The capital account shows the two principal means of financing the trade deficit, namely, gold sales and Western credits.

THE BALANCE IN 1964: This chart brings together in a simplified statement the USSR's balance of payments in 1964 with hard currency trade partners.

Inclusions and exclusions.

Breakdown of the Current Account: 3 entries--EXPLAIN

*The main point is the overwhelming importance of commodity trade transactions in the Current Account. (As we saw on the board of basic facts, trade and transport together account for 95% of the value of all Current Account transactions).

Breakdown of the Capital Account: 3 entries--EXPLAIN

*The main point is the predominance of gold sales in capital transactions. (As we saw on the board of basic facts, gold sales and credits together account for over 95% of the value of all Capital Account transactions).

FINANCING THE DEFICIT: This chart shows the trends since 1959 in the deficit on trade and transportation and the trends in the principal means of financing the deficit, namely, gold sales and credits.

(1) Trends in the trade and transportation deficit--EXPLAIN

(2) Trends in gold sales--EXPLAIN

Note that as the deficit descends, sales of gold soar to offset it.

Accumulated sales totalling $2.3 billion from start 1959 to end 1965 represent 80% of principal means of financing the deficit.

The resultant impact on gold reserves: from $2.7 billion at start 1959 to $1.3 billion at end 1965.

(3) Credits from the West: $600 million net received from start 1959 to end 1965, or 20% of the principal means of financing the deficit.

Note that net credits exceed gold sales in only one year, 1960.

Note how net benefits from such credits have continually diminished because of tendency for repayments to offset new drawings.

CONCLUSION:

The continuing existence of this deficit is a constraint on Soviet economic performance and growth.

The Soviets both want and need more Western equipment.

The recent slowdown in economic growth has made them acutely aware, Mr. Director, of the technological gap between their own equipment and that of the industrial West.

The problem is, however, how to pay for the imports.

As we saw, they cannot continue selling gold at past rates.

And, credit-financing all to quickly leads to offsetting repayments burdens.

So, the only good solution is to expand the rate of growth of exports, and so far we have seen no signs of decisive progress in that endeavor.

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HARD CURRENCY TRADE:

$2.5 billion in 1965, or 15% or total Soviet trade

Imports: $1.4 billion in 1965, including
machinery from West Europe and Japan
grain from Canada
rubber from Southeast Asia

Exports: $1.1 billion in 1965, including
petroleum, wood, and metals to
West Europe and Japan

THE PAYMENTS BALANCE

Current Account: trade and transportation account for over 95% of value all current receipts and payments

Capital Account: gold sales and credits account for over 95% of value all capital transactions

FINANCING THE DEFICIT:

Gold Sales: $310 million in 1965; accumulated total of $2.3 billion from start 1959 to end 1965

Credits from West: $50 million net received in 1965; accumulated total of $600 million from start 1959 to end 1965

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THE SOVIET BALANCE OF PAYMENTS IN HARD CUR[illegible]

(IN MILLIONS OF US $)

	CREDIT	DEBIT	BALANCE
I. CURRENT ACCOUNT			
1. COMMODITY TRADE	992	1,545	-553
2. TRANSPORTATION, NET			-60
3. OTHER CURRENT RECEIPTS AND PAYMENTS	26	66	-40
BALANCE ON CURRENT ACCOUNT			-653
II. CAPITAL ACCOUNT			
4. MEDIUM-TERM CREDITS	300	255	+45
5. REPAYMENTS ON MILITARY CREDITS	35		+35
6. MONETARY GOLD	520		+520
BALANCE ON CAPITAL ACCOUNT			+600
III. TOTAL BALANCE			-53

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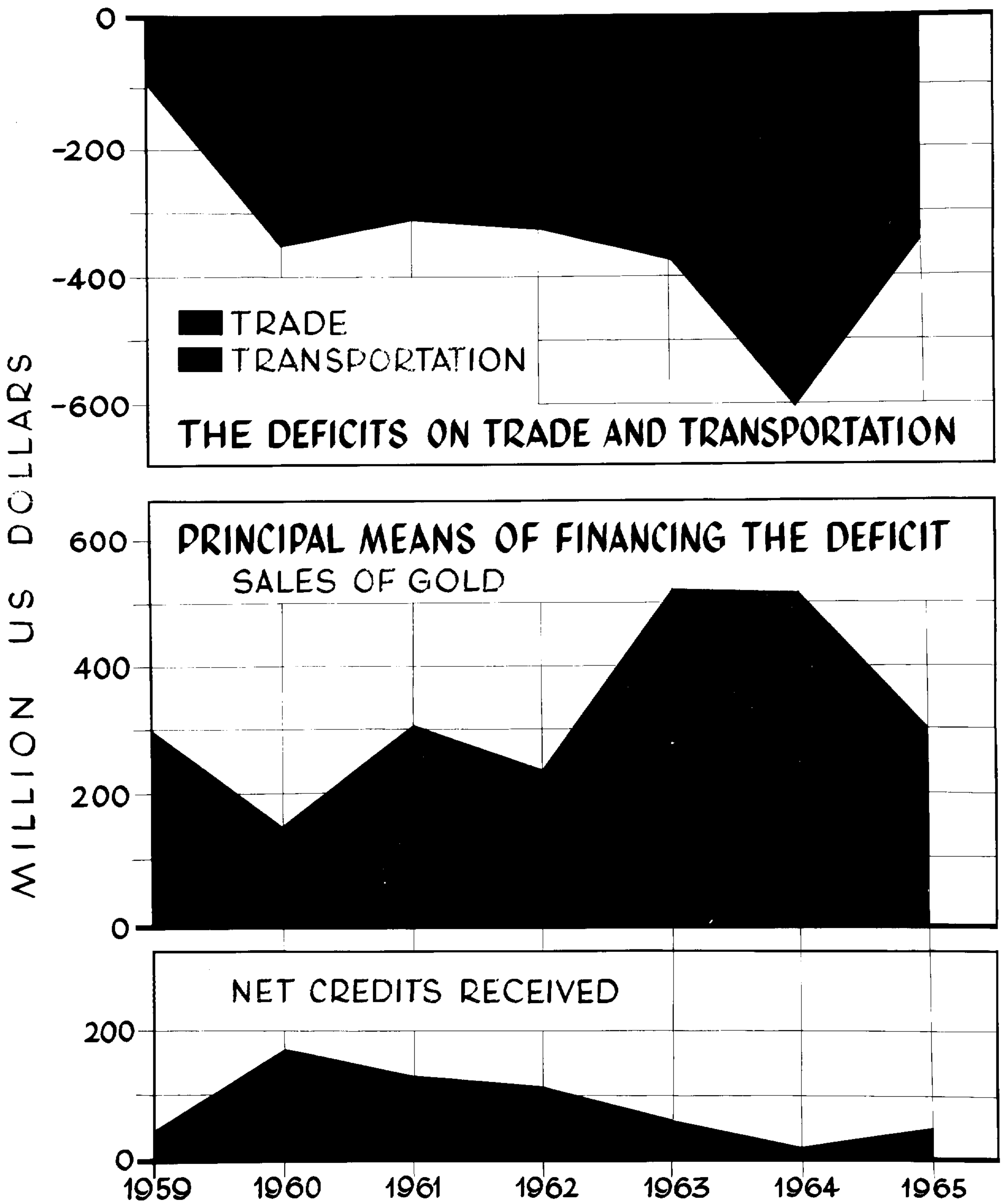
FINANCING THE SOVIET HARD CURRENCY DEFICIT ON TRADE AND TRANSPORTATION, 1959-65



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