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SOVIET UNION - EASTERN EUROPE

This publication is prepared for regional specialists in the Washington community by the USSR - Eastern Europe Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

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SECRET SPOKE

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Gromyko Ends Visit to Italy

Soviet Foreign Minister Gromyko returned home on Sunday after a three-day visit to Italy.

Gromyko did not seem totally satisfied with his talks with the Italian leaders. At a press conference at the end of his trip, he expressed some dissatisfaction over the pace of Soviet-Italian political rapprochement. He also made some veiled remarks warning against delays in convening the European security summit. This suggests that the Italians were not ready to pull their forelocks for their Soviet guest.

No mention was made of a visit by Soviet party chief Brezhnev to Italy this year, but a fall visit by President Leone to the USSR was announced, and an invitation was extended to Foreign Minister Rumor. Gromyko signed a number of minor technical cooperation agreements.

Gromyko also talked with Communist party chief Berlinguer. Presumably the two men had the Italian political scene much on their minds, but protocol and propriety required that they say only that they had discussed the international situation. (UNCLASSIFIED) 25X1A

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Hungarian Price Increases Predicted

Budapest will announce an increase in consumer prices of more than 10 percent in August, [redacted] major restrictions on imports--presumably limited to those from the West--would follow in short order. 25X6

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Party chief Kadar telegraphed at least some increase in the consumer price level in a tough election speech in June. The speech was larded with references to slower economic growth and smaller improvements in living standards, and Kadar stated that the population was "not sufficiently aware" of the real cost of the goods in the domestic market place.

The resource-poor Hungarian economy has been severely strained by higher prices for both Western and Soviet oil and raw materials, and by shrinking Western markets. On the heels of a record $700-million deficit with the West last year, exports in the first four months of 1975 slumped 8 percent below the same period last year.

Despite some trimming of purchases on consumer goods this year, imports from the West increased by 25 percent. As a result, the trade deficit with the West reached $400 million for January-April, compared with $200 million for the same period last year. The rapidly escalating deficit apparently has sparked a high-level debate since early this year over how much to cut back the growth of Western imports.

Maintaining relatively stable prices has become increasingly incompatible with efforts to have consumer prices reflect real costs. The economic

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reform has permitted an inflation rate of 2-3 percent a year since 1968 as part of a deliberate effort to expose the domestic economy to world economic forces. When import prices from the West rose 40 percent last year, however, budget authorities had to step in with massive price subsidies to keep the rise in the consumer price level to only 2 percent.

Budapest is likely to soften the impact of any price increases by granting some wage and welfare benefits. The effective date of the increases may be delayed until the beginning of the next five-year plan in January so that the leadership will have an opportunity to justify its decision and to assess public reaction before the price hikes take effect. (CONFIDENTIAL NO FOREIGN DISSEM/NO DISSEM ABROAD/ BACKGROUND USE ONLY)

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