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Eastern Europe's Credit Crunch

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An Intelligence Assessment

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EUR 82-10033
March 1982

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Eastern Europe's Credit Crunch

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An Intelligence Assessment

Information available as of 23 February 1982 has been used in the preparation of this report.

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The authors of this paper are [redacted] of the Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, East-West Regional Issues Branch, Eastern Europe Division, EURA [redacted]

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This report was coordinated with the National Intelligence Officer for the USSR and Eastern Europe and with the Office of Soviet Analysis. [redacted]

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Eastern Europe's Credit Crunch

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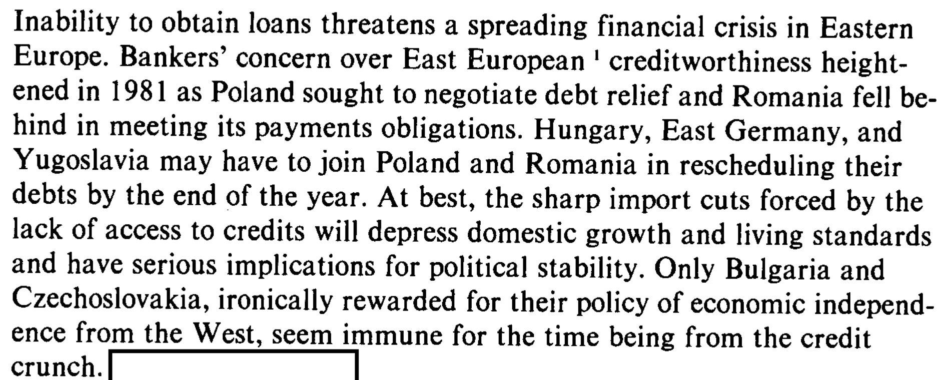
Key Judgments



Inability to obtain loans threatens a spreading financial crisis in Eastern Europe. Bankers' concern over East European [1] creditworthiness heightened in 1981 as Poland sought to negotiate debt relief and Romania fell behind in meeting its payments obligations. Hungary, East Germany, and Yugoslavia may have to join Poland and Romania in rescheduling their debts by the end of the year. At best, the sharp import cuts forced by the lack of access to credits will depress domestic growth and living standards and have serious implications for political stability. Only Bulgaria and Czechoslovakia, ironically rewarded for their policy of economic independence from the West, seem immune for the time being from the credit crunch.

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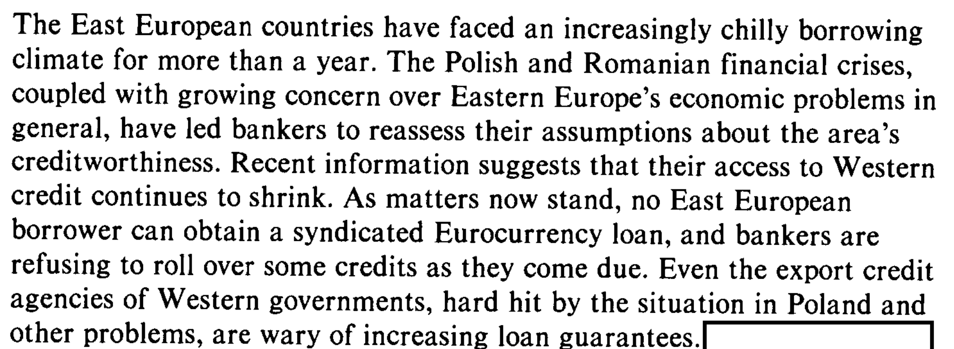

The East European countries have faced an increasingly chilly borrowing climate for more than a year. The Polish and Romanian financial crises, coupled with growing concern over Eastern Europe's economic problems in general, have led bankers to reassess their assumptions about the area's creditworthiness. Recent information suggests that their access to Western credit continues to shrink. As matters now stand, no East European borrower can obtain a syndicated Eurocurrency loan, and bankers are refusing to roll over some credits as they come due. Even the export credit agencies of Western governments, hard hit by the situation in Poland and other problems, are wary of increasing loan guarantees.

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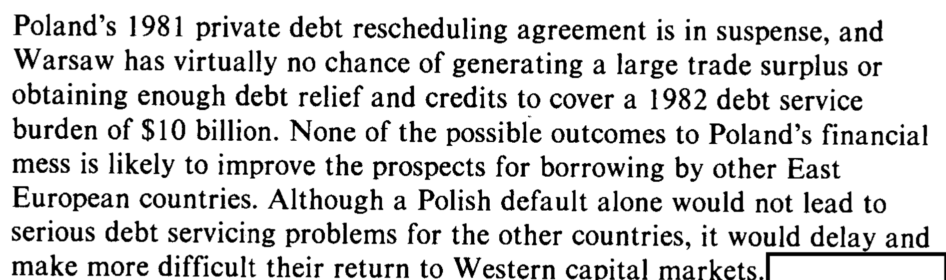

Poland's 1981 private debt rescheduling agreement is in suspense, and Warsaw has virtually no chance of generating a large trade surplus or obtaining enough debt relief and credits to cover a 1982 debt service burden of $10 billion. None of the possible outcomes to Poland's financial mess is likely to improve the prospects for borrowing by other East European countries. Although a Polish default alone would not lead to serious debt servicing problems for the other countries, it would delay and make more difficult their return to Western capital markets.

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Romania's problems, like Poland's, have hurt Eastern Europe's ability to borrow. Bucharest's effort to reschedule its debt with banks is off to a smoother start, but several obstacles must be overcome to conclude an agreement. Even with debt relief, Bucharest would face a large financial gap. After sharp import cuts in 1981, there is less scope for adjustment

[1] Includes East European CEMA members and Yugoslavia.

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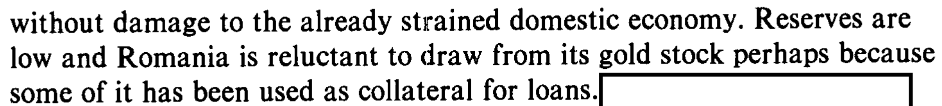

without damage to the already strained domestic economy. Reserves are low and Romania is reluctant to draw from its gold stock perhaps because some of it has been used as collateral for loans. 25X

East Germany, Hungary, and Yugoslavia have multibillion-dollar borrowing needs this year, and they are virtually shut out of Western capital markets. Banks have been reducing their medium- and long-term exposure for the past year, and in recent weeks some West European banks have reduced their short-term lines of credit. Even if the cutbacks are modest, East Germany, Hungary, and Yugoslavia will face serious problems in 1982, but they might be able to get through by recourse to government-guaranteed loans, supplier financing, reserve drawdowns, and import cuts.

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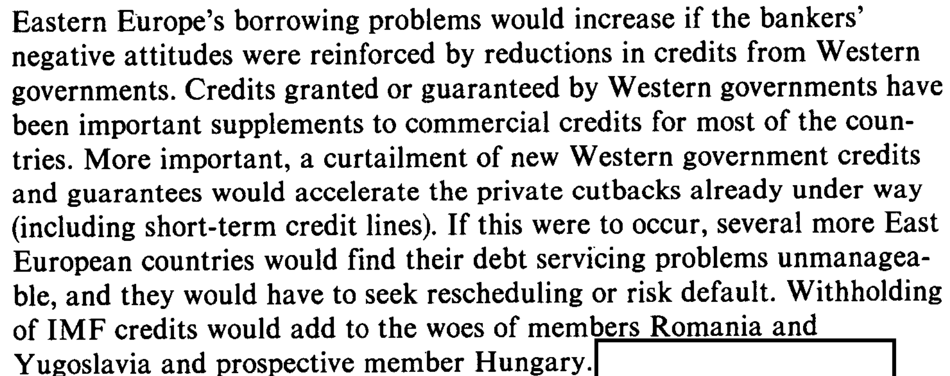
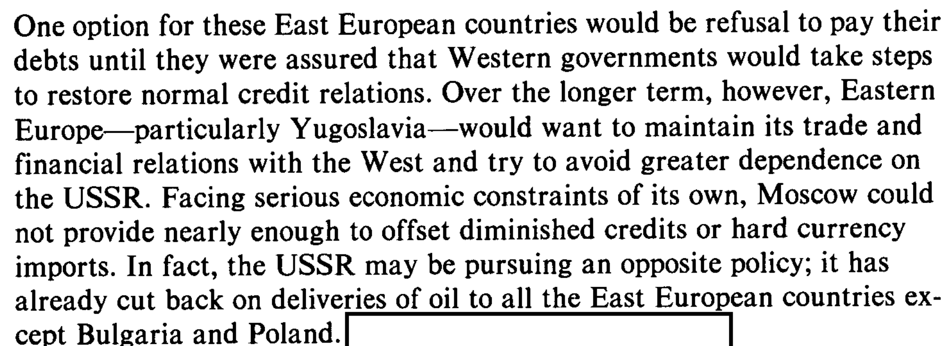


Eastern Europe's borrowing problems would increase if the bankers' negative attitudes were reinforced by reductions in credits from Western governments. Credits granted or guaranteed by Western governments have been important supplements to commercial credits for most of the countries. More important, a curtailment of new Western government credits and guarantees would accelerate the private cutbacks already under way (including short-term credit lines). If this were to occur, several more East European countries would find their debt servicing problems unmanageable, and they would have to seek rescheduling or risk default. Withholding of IMF credits would add to the woes of members Romania and Yugoslavia and prospective member Hungary. 25X



One option for these East European countries would be refusal to pay their debts until they were assured that Western governments would take steps to restore normal credit relations. Over the longer term, however, Eastern Europe—particularly Yugoslavia—would want to maintain its trade and financial relations with the West and try to avoid greater dependence on the USSR. Facing serious economic constraints of its own, Moscow could not provide nearly enough to offset diminished credits or hard currency imports. In fact, the USSR may be pursuing an opposite policy; it has already cut back on deliveries of oil to all the East European countries except Bulgaria and Poland. 25X

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Eastern Europe's Credit Crunch

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Eastern Europe's Recent Borrowing Problems

The attitudes and policies of the 1970s that opened the West's credit windows to Eastern Europe have given way gradually to caution, skepticism, worry, and, finally, a slowdown in lending. Bankers' reluctance to extend new credits has grown over the past two years. The most obvious indicator of East European borrowing problems has been the sharp cutback in syndicated Eurocurrency loans. Data compiled by *Euromoney* show that after peaking at $6.9 billion in 1979, syndicated loans to Eastern Europe in 1981 totaled only $3.0 billion (see table 1). There have been no major syndications since last spring, when Hungary and the GDR with some difficulty completed $400 million and $100 million Eurodollar loans, respectively.

Table 1 *Million US $*

Syndicated Loans for Eastern Europe, 1976-81

	1976	1977	1978	1979	1980	1981
Total	**1,120**	**1,696**	**4,549**	**6,914**	**5,037**	**3,026**
Poland	425	186	739	901	1,089	106
Romania	0	50	453	1,100	458	337
Yugoslavia	100	323	1,415	2,291	1,972	1,371
East Germany	65	542	916	782	481	627
Hungary	150	350	600	1,047	550	573
Czechoslovakia	260	0	150	461	487	4
Bulgaria	120	245	276	332	0	8

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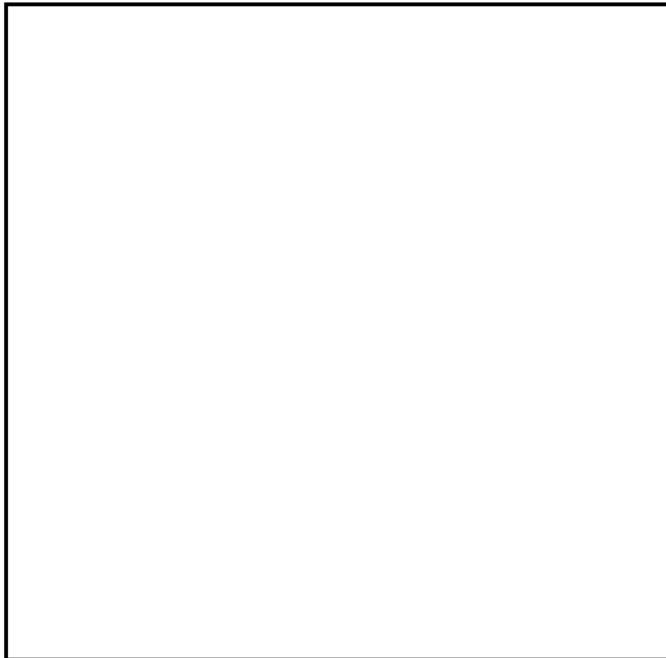

Negative attitudes toward lending to Eastern Europe have varied in degree among lenders. In general, US bankers have been more bearish than the West Europeans, who stand to lose more if credit cutoffs precipitate insolvencies. European banks, moreover, receive more pressure to lend to Eastern Europe from domestic clients eager to export to the area and hope they can maintain financial relations in the long run despite the current problems. Recently, however, the differences between US and West European banks have narrowed. The Europeans, who at first argued for softer terms in the Polish rescheduling, by last fall were pressing the Poles at least as hard as were the Americans. West European banks apparently are now as cautious as US banks in increasing their East European exposure.

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The poor financial situations of Western export credit agencies cast a further pall over Eastern Europe's borrowing prospects. The possibility of a Polish default—coupled with the need to reschedule Romania's official debt and mounting payment difficulties for some LDC and Western corporate borrowers—threatens to bankrupt some agencies. Reduced government outlays already halted the increase in credit subsidies last year; now the need to pump more cash into

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[2] The "a forfait" market trades in promissory notes with maturities of three to five years that do not carry Western government guarantees.

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reserves for bad loans has reduced the volume of loanable funds. As a result, West European governments have instructed their loan officers to hold down new lending to less creditworthy borrowers. Since some credit agencies have raised the risk rating for all of Eastern Europe, the flow of cheap, officially backed loans may well be cut back even to those countries not yet experiencing payment difficulties.

Reasons for Changing Creditor Attitudes

Eastern Europe's borrowing problems, now full blown, emerged first as one result of the chill in East-West relations following the Soviet invasion of Afghanistan. After mid-1980, developments in Poland began to dominate creditors' attitudes. To a large extent, the new attitude reflects doubts about an individual state's ability to use credits wisely, to sell exports in highly competitive and depressed Western markets, and to maintain appropriate domestic-investment and standard-of-living policies. Governments and bankers have lost confidence in their assumptions about lending to Eastern Europe.

Warsaw's Bad Example

Poland's bankruptcy shattered several assumptions that had served to boost Western lending to Eastern Europe in the 1970s. East European countries had been able to point to largely unblemished payments records, a consideration that offset the paucity of data released to lenders. Western lenders believed that the centralized management of the East European countries' finances was sufficient protection and that these countries could impose controls quickly to balance their external accounts. CEMA countries enjoyed the image of financial conservatives who would not borrow unless they were sure they could repay. By late 1980, it was clear to many bankers that Poland's debt had become unmanageable and that new loans were sought mainly to service old ones. Subsequently, the payments coming due exceeded the new loans coming in and Warsaw was unable to meet its payments. In March 1981 Warsaw declared a moratorium on debt service, the first open admission by a CEMA borrower that it could not meet its financial obligations.

The Umbrella Theory

Much of the lending of the 1970s was founded on faith in "the umbrella theory," which holds that the USSR is the unwritten guarantor of loans to CEMA countries. The bankers reasoned that Moscow's desire to protect its own credit rating and that of its allies would lead the USSR to police CEMA borrowers and bail out any that got into trouble. Although by the late 1970s bankers relied less on faith in the umbrella and more on their views of individual borrowers, they still expected the USSR to come to Poland's financial rescue. Indeed, large infusions of Soviet hard currency early last year probably delayed Warsaw's insolvency, but only by a month or two, and in the end Poland's debt burden proved to be more than Moscow could or would bear. The Soviets apparently have not given Poland any hard currency since the first quarter of 1981, although rumors that the USSR is providing money continue to crop up. While bankers unsuccessfully have urged Moscow to pay the money the Poles owe them, Soviet officials privately and publicly have stressed that the debts are Poland's responsibility.

The Soviets themselves are in a hard currency bind because of large trade deficits and have also had trouble borrowing recently. Moreover, Moscow does not want to establish a precedent for paying future Polish debt service or for bailing out other CEMA members. Even if it were willing to, the USSR could afford to cover no more than a fraction of Poland's $10 billion debt service in 1982. More broadly, Moscow cannot be expected to backstop much of CEMA's $70 billion debt to the West (see figure 1).

Romania Follows Poland

The change in bankers' perceptions was reinforced when Romania joined Poland in the ranks of the insolvent in the summer of 1981. Beginning in the spring, Bucharest began to have trouble borrowing the funds it needed to pay debt service bills swollen by heavy past borrowing and high current interest rates. By summer, Romania began to fall far behind in its payments to Western suppliers and banks. Bucharest, agreed in mid-January with Western banks that a rescheduling of 1982 obligations was necessary. With two of the seven East European countries unable to meet their obligations, lenders began to wonder who would be next.

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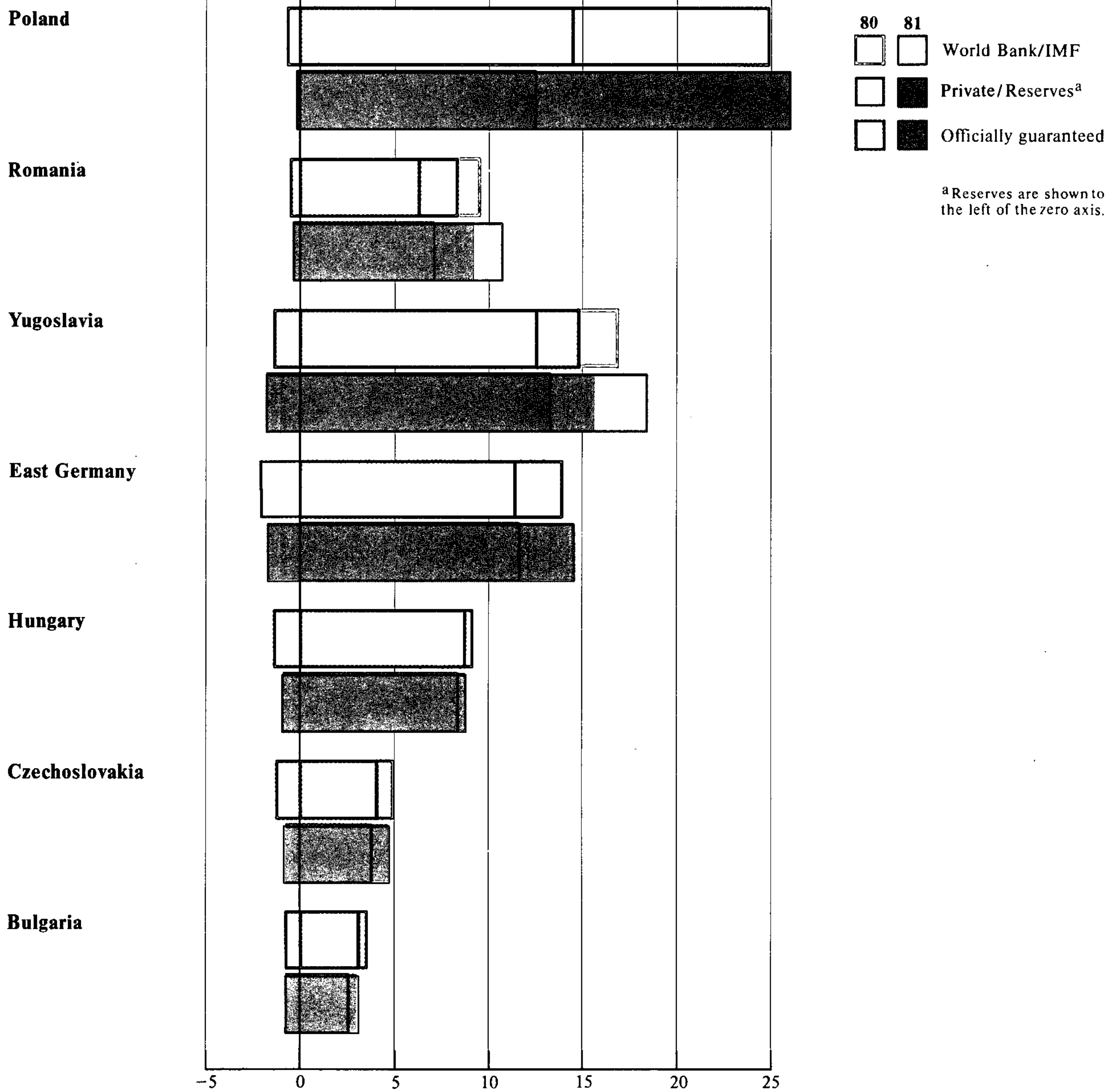
Figure 1

Eastern Europe: Hard Currency Debt in 1980-81



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Eastern Europe's Own Economic Problems

Aside from the Polish and Romanian payments difficulties, bankers have become increasingly concerned about Eastern Europe's economic problems and prospects. Their experiences with Poland and Romania have caused them to take a closer look at other countries in the region, and their examinations have revealed some worrisome signs.

Until recently, bankers regarded the dependence of these countries on the USSR as an advantage. Moscow produced substantial exportable surpluses of oil, natural gas, iron ore, and other raw materials, which it sold to CEMA countries in large quantities for soft currency at prices well below world levels. Soviet supplies thus sheltered Eastern Europe from the price explosions and shortages of the 1970s. Now the outlook for Soviet economic stagnation and for slower growth or cutbacks in deliveries of oil and other crucial Soviet products darkens prospects for the CEMA countries. Reduced Soviet supplies will force the CEMA countries to increase hard currency expenditures for Middle Eastern oil and Western industrial inputs (see figure 2).

The bankers have been disappointed in the results of programs to import capital goods from the West. Loans provided throughout the 1970s were often for industrial or raw material development projects that were expected to spur economic growth and to generate exports to repay the loans.[3] Some of these projects turned out well, but many of them were delayed or never reached expected capacities. Slow and shoddy construction, raw material shortages, management problems, and inability of the labor force to operate foreign equipment all became evident. The contribution of Western imports to growth in Eastern Europe is difficult to estimate, but at a minimum the import programs associated with detente have not kept growth rates from declining in recent years.

[3] The project-loan concept has been another casualty of the Polish muddle. Bankers preferred lending to finance Eastern imports for specific projects, rather than balance-of-payments credits, because the projects were expected to generate export receipts to repay the loans. Poland's project loans have been thrown into the rescheduling hopper along with other loans, despite the continued solvency of some projects.

Political Factors

The formation of Solidarity and its contest for political power with the Polish regime have forced bankers to give more weight to political risk factors in decisions about lending to Eastern Europe. Increasingly chilly East-West political relations have compounded their caution about the region. Bankers felt they had the green light with the onset of detente. They rapidly increased lending to the East, often with Western governments as partners through export loans or guarantees. The political euphoria began to fade in the mid-1970s, and the invasion of Afghanistan at the end of 1979 led to a pause of several months in syndicated credits for Eastern Europe. Throughout 1981, the Polish crisis and the possibility of a Soviet invasion added to the economic factors slowing lending to the East. The December crackdown on Solidarity and the resulting actual and proposed economic sanctions have provided further reasons for caution.

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The Financial Outlook for Poland

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Since the imposition of martial law, Poland's financial situation has deteriorated even further. Warsaw has been unable to complete the 1981 private rescheduling accord. Western governments have suspended talks on debt relief for 1982 and are less willing to extend further credits, leaving Poland with virtually no foreign help to cover its huge 1982 debt service bill.

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The likely outcomes of Poland's financial crisis have narrowed to a few possibilities. None of these will involve either much further damage to Warsaw's already shattered hard currency trade and financial relations or rapid restoration of creditworthiness. The prospects remain poor that Warsaw can overcome the financial hurdles that prevent imports of raw materials, spare parts, and semimanufactured goods in the quantities necessary for economic recovery.

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Default

Poland has been in technical default since 26 March 1981, when Warsaw declared a moratorium on most of its debt service payments. So far, no creditor has

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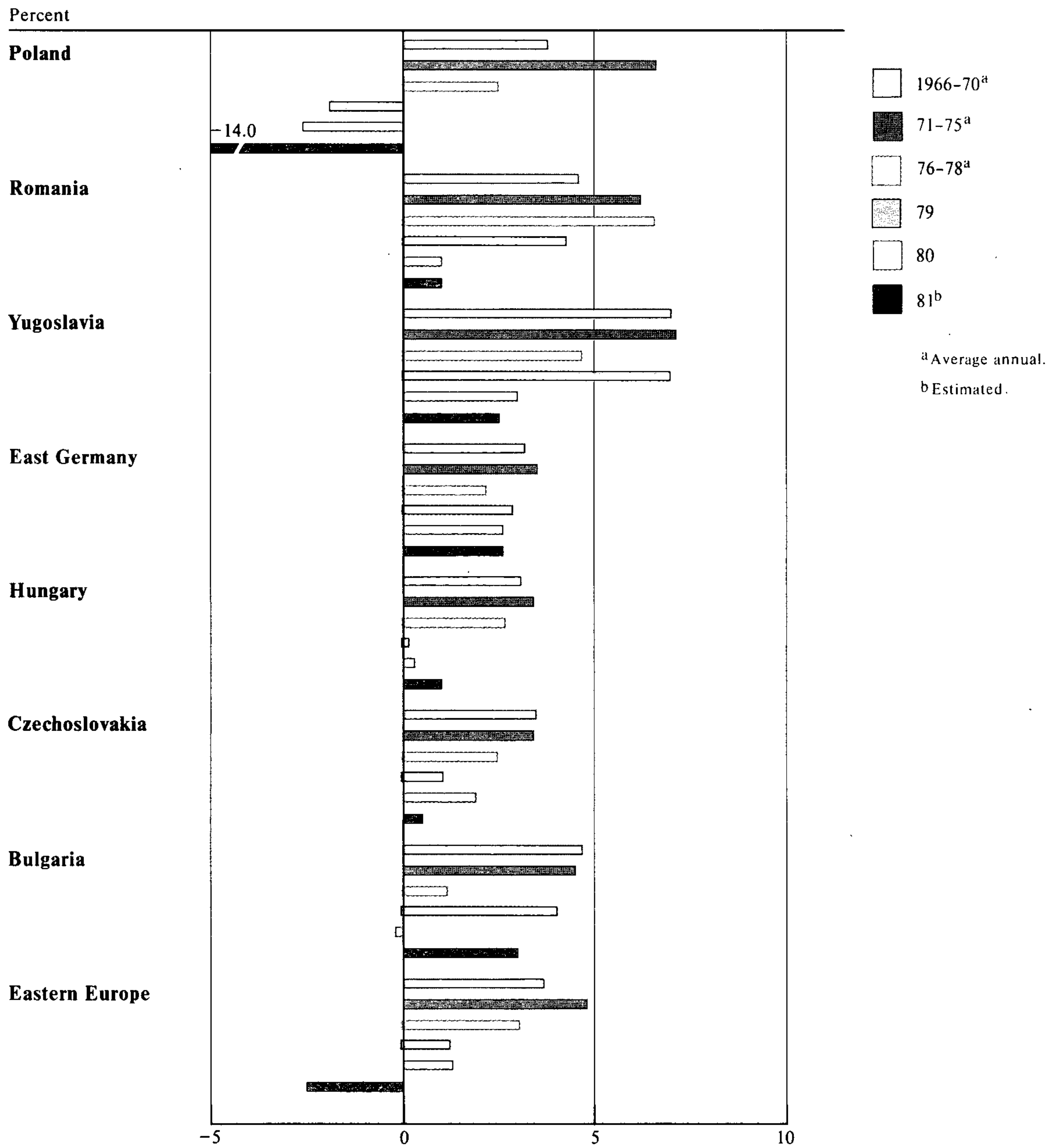
Figure 2

Eastern Europe: GNP Growth Rates



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declared legal default, but the threat from both banks and governments continues as the 1981 private rescheduling drags on and 1982 arrearages mount. Any of the 501 banks to which Warsaw owes overdue interest and principal payments could initiate legal default proceedings. Also governments could take action on several grounds:

- In some cases, Warsaw apparently has not paid the 10 percent of principal and interest due in 1981 that was not covered by the official rescheduling agreement.
- Arrears have already started to build up this year on government-guaranteed credits.
- The imposition of martial law makes the regime vulnerable to the "tank clause," which allows the Western creditors to abrogate the 1981 rescheduling agreement under exceptional circumstances. [ ] 25

Legal default could lead to a scramble by private creditors for Poland's assets in the West, the value of which would offset only a tiny fraction of Poland's hard currency debt. Foreign trade would be adversely affected. The trade impact might be small because trade already is down as a result of Poland's inability to obtain credits, the need to use export receipts to pay interest to banks rather than to buy imports, and reduced economic activity in Poland. Warsaw would have to take measures to protect Polish ships and their cargoes from legal action, but third-country deals could be worked out. [ ] 25

Although Poland's desperate financial condition limits the additional damage that default could inflict in the short run, default probably would make Poland's return to creditworthiness and access to credits a longer and more difficult process. The opprobrium of formal default probably would be more difficult to overcome than the reaction to a rescheduling. Moreover, legal suits and claims could complicate Polish financial and commercial relations for some time. For these reasons, the regime has put a high priority on allocating scarce hard currency for debt service in order to avoid default. [ ] 25

The present situation can go on as long as the least patient holder of Polish debt allows it. Creditors have held off calling default through many months of Polish arrearages, economic slump, political turmoil, and now martial law. Many banks probably have given up hope that their loans will ever be repaid, but they have held on to avoid the huge writeoffs of loans that would be necessary if Poland were thrown into default. With increased pressure from bank auditors and regulators to write off the loans, the banks are finding it more difficult to carry Polish credits as sound assets. [ ] 25

The Poles failed to pay off all 1981 interest due to private banks by 15 February as promised, and the banks set a new deadline of 26 March. By late March, the unpaid interest was down to less than $10 million. The signing of the agreement to reschedule 1981 principal payments was tentatively set for 6 April, but the banks will not sign unless all 1981 interest is paid. [ ] 25

As long as the impasse continues and creditors do not initiate default, Warsaw will still be in a financial straitjacket. Banks will be unwilling to increase their exposure, even by extending short-term credits. The banker demands forced Warsaw to place an extremely high priority on paying its 1981 interest obligations. With Poland's reserves depleted and export revenues apparently only a trickle, little is left for imports. [ ] 25

If Warsaw does manage to sign the debt relief agreement for last year, it will have cleared only its most immediate financial hurdle. The conclusion of the 1981 rescheduling agreement will be a plus for the regime—possibly the first major economic agreement with the West since martial law. The Poles hope—probably unrealistically—that straightening out their 1981 obligations will encourage banks to restore short-term credit lines, making possible some expansion of trade. [ ] 25

Outlook for Covering 1982 Financial Gap

As soon as the 1981 private debt relief agreement is completed, Poland will have to tackle the massive burden of some $10 billion in payments due in 1982: $5 billion in principal payments to Western governments and banks, another $1.8 billion to non-Western creditors, and $3.3 billion in interest. The outlook for covering the financial gap is even worse than last year. With debt relief not arranged, arrearages mount at the rate of $800 million monthly, intensifying the risk of default (see table 2). [ ] 25

Table 2 *Million US $*

Eastern Europe: Estimated Financing Requirements

	Poland		Romania		Yugoslavia		East Germany		Hungary		Czechoslovakia		Bulgaria	
	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982	1981	1982
Total	**9,140**	**10,300**	**4,085**	**4,565**	**5,430**	**4,900**	**6,400**	**7,200**	**3,680**	**3,300**	**1,950**	**1,940**	**910**	**770**
Current account deficit	1,340	2,600	800	450	1,400	1,200	1,900	1,500	580	420	150	(70) [a]	(560) [a]	(470) [a]
Repayments of medium- and long-term debt	6,400	6,800	1,300	1,900	2,200	2,300	2,400	3,200	800	880	550	560	760	740
Government-backed	2,600	3,500	300	550	400	400	400	500	110	125	190	200	110	100
Private	3,800	3,300	1,000	1,350	1,800	1,900	2,000	2,700	690	755	360	360	650	640
Repayments of short-term debt	1,900	900	2,124	2,040 [b]	1,400	1,400	2,500	2,500	2,700	2,000	1,600	1,450	640	500
Change in reserves	−500		−139	175 [c]	430		−400		−400		−350		70	

[a] Values in parentheses are current account surpluses.
[b] Includes $1.2 billion in arrearages on payments due in 1981.

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Warsaw informed Western banks in late January that it would pay no principal or interest due in 1982 at least until the 1981 debt agreement is signed. The banks replied that once the agreement is signed, they want payment of interest due in 1982 through the date of signature before the agreement on 1981 debt can take effect. Even if this hurdle is passed, prospects are poor for early conclusion of debt relief agreements on 1982 obligations. Talks on 1982 government debt were suspended indefinitely after the imposition of martial law. Although banks have indicated that they will begin 1982 discussions as soon as the 1981 rescheduling agreement is signed, they are likely to demand stricter terms for this year's rescheduling.

Tough talk aside, the creditors have little leverage over the Poles except the threat of default. Since Warsaw will be unable to pay much of its 1982 obligations, it probably will choose to pay those creditors who seem most likely to declare default or most likely to extend new credits. In practice, this means that Poland will attach the highest priority to paying interest due—about $2.5 billion—to private banks. Last year, the Poles took advantage of commodity credits extended by Western governments to service bank obligations. Instead of using these credits to increase total imports, Warsaw opted for nearly balanced trade and diversions of funds to pay interest. The Poles' recent announcement that they plan a $530 million surplus for the first half of this year indicates that Warsaw has chosen to pay at least some debt service even at the expense of desperately needed imports.

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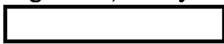
As long as nearly all new Western government credits are blocked by sanctions, the trade account must bear the burden of debt service. It is unlikely that Warsaw could hold imports low enough to permit payment of all interest obligations, to say nothing of installments on principal. 

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Romania—Rescheduling Begins

Romania was the second CEMA member to encounter serious payments difficulties. Its critical financial situation has forced Bucharest to seek debt relief, a painful and embarrassing step that President Ceausescu accepted only with great reluctance.

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The Romanians enter the rescheduling process with some advantages in comparison to Poland. The political situation is more stable in Romania, and Bucharest's debt and financing requirements are less than half as large as Warsaw's. Unlike Poland, Romania has an outside chance of turning its financial position around if it can gain a year or two of breathing space through debt relief.

On the other hand, some factors will make the negotiations difficult:

- The Romanians are disorganized and will attempt to downplay their problem in an effort to avoid comparisons with Poland.
- The bankers have little confidence in Bucharest's financial acumen or its ability to manage its economy.
- The Ceausescu regime's prospects for new aid from Western governments or the USSR are not very good; Romania has always been considered the CEMA country least likely to find shelter under a Soviet financial umbrella.

The IMF will be important to Romania's financial future. Bucharest will need to resume drawings of its standby credit, and it will need advice from the Fund during the rescheduling negotiations with private banks. The Ceausescu regime, however, will have to be more willing than in the past to accept and implement IMF guidance. The IMF's active role in the past year has not prevented Romania's slide into insolvency.

After accumulating $1.2 billion in arrearages by the end of 1981, Bucharest began rescheduling talks in January with several major Western banks. In the third week of February, the Romanians accepted rescheduling terms offered by two Western bankers who negotiated on behalf of nine major banks.

It took the Romanians only six weeks to come to terms—a process that took nine months with Poland. One major reason for the difference is that in the Romanian case only nine major banks were represented in the rescheduling talks. Romania's remaining 303 creditor banks were notified after the terms were negotiated. There are strong indications that some of the banks object to the terms and that quick ratification is far from assured.

Thus, even after rescheduling private debt obligations, Romania could face a gap of up to $2 billion. Bucharest has little capability to cover this gap through the trade account. Prospects for increasing exports are bleak, and it cut imports so sharply in 1981 that industrial production already is suffering from shortages of industrial materials and equipment. The Romanians will be hard pressed to generate even the $550 million trade surplus implied in official 1982 plans.

Romania's best chance for closing the gap would seem to be through a drawdown of reserves. Bucharest claims gold reserves of $1.4 billion but has been reluctant to sell from this stock, possibly because some has been used as collateral for loans.

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Continued Poor Prospects for the Rest of Eastern Europe

Throughout 1981, bankers told would-be East European borrowers that new loans to Eastern Europe would have to await conclusion of the Polish rescheduling agreement. With the signing ostensibly near at hand, however, it appears that no matter how the Polish financial situation evolves—and the Romanian situation too—all East European countries will continue to face a poor borrowing climate.

Warsaw's inability to meet its huge debt service bill, combined with creditors' insistence that the interest obligations be honored, assures that bankers will be enmeshed in difficult negotiations this year and beyond. At least in 1982, and probably for years ahead, Warsaw will be hard pressed to pay the interest that bankers have insisted is necessary for conclusion of rescheduling agreements. Hence, the risk of Polish default will continue and perhaps increase.

The lending climate could worsen further if there is a default by either Poland or Romania or a further deterioration in the political and economic situation in Poland. The major impact of default would derive from subjective factors. Default would deal a blow to bankers' faith that debt problems anywhere—and particularly in Communist countries—can be worked out in an orderly fashion. The result probably would be a contraction in international lending to less creditworthy borrowers everywhere and an erosion of the already negative attitudes toward credits to Eastern Europe. Subjective factors are critical since, in a narrow financial sense, a Polish default would not necessarily have much direct impact on the lending ability of private banks. The key factor would be banks' decisions on the allocation of lending among competing borrowers.

The type of default could make a big difference. If a small creditor declares default, while other creditors delay or refrain from following suit, the damage would be minimized. If, on the other hand, the leadership of the private bank group (the Multinational Task Force, representing 501 Western banks) declared Poland in default, all creditors probably would have to write off the Polish debt. The Romanian rescheduling effort might fail and the rest of Eastern Europe's access to credits would be even further damaged.

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Independent of the strictly financial factors, economic and political developments in Poland will play a big role in determining Eastern Europe's near-term access to private Western credits. Western creditors will be looking for signs of economic turnaround and political stability in Poland. If the Polish crisis eases somewhat—if martial law is lifted succcessfully, for example—then pressure for sanctions would ease, and private creditors would consider opening their lending windows to the East. Even if the Polish domestic situation does not change much, the Western reaction to martial law could lose momentum. The creditors probably will remain cautious for some time, however, given that past signs of improvement in Poland have proved fleeting and that the situation remains inherently unstable. Thus, any return to large-scale private lending to Eastern Europe probably will be at best a slow process.

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In any case, private lenders will be sensitive to signals from their governments. If Western governments cut back on credits and guarantees, this would have a powerful impact on private lending and would make it impossible for some of the East European countries to cover their borrowing requirements.

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Alternative Borrowing Scenarios and Adjustment Options

Explanation of Scenarios

The following section assesses the likely impact of tightening credit availability on the trade and payments situations of East Germany, Hungary, Czechoslovakia, Yugoslavia, and Bulgaria. Each country's 1982 financing requirement is determined by summing projected current account balances, estimated repayments of medium- and long-term credits, and short-term debt outstanding at yearend 1981.

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Table 3 *Million US $*

Eastern Europe: Alternative Borrowing Scenarios for 1982

	Baseline	Variant 1	Variant 2	Variant 3
East Germany				
Financing requirement	4,900	4,900	4,900	4,900
Borrowing sources	4,100	3,525	3,175	1,850
Rollovers of medium- and long-term credits	2,300	1,725	1,725	1,150
Rollovers of short-term credits	1,400	1,400	1,050	700
New official credits	400	400	400	0
Financing gap	800	1,375	1,725	3,050
Hungary				
Financing requirement	7,200	7,200	7,200	7,200
Borrowing sources	6,500	5,700	5,075	2,850
Rollovers of medium- and long-term credits	3,200	2,400	2,400	1,600
Rollovers of short-term credits	2,500	2,500	1,875	1,250
New official credits	800	800	800	0
Financing gap	700	1,500	2,125	4,350
Yugoslavia				
Financing requirement	3,300	3,300	3,300	3,300
Borrowing sources	2,990	2,770	2,270	1,440
Rollovers of medium- and long-term credits	880	660	660	440

[a] Values in parentheses indicate that available borrowing sources exceed financing requirements.

Alternative East European Borrowing Scenarios

In the *baseline case*, the East Europeans draw officially backed credits at the 1981 level and can borrow sufficient private credits to cover all maturing medium- and long-term obligations, both private and government-backed. The East Europeans also are able to roll over all short-term debt. These assumptions imply an increase in private lender exposure to Eastern Europe.

In *Variant 1*, the East Europeans are able to roll over only 75 percent of maturing medium- and long-term obligations due to cutbacks in private lending. They can continue to draw official credits at the 1981 level and are able to roll over all short-term debt.

Variant 2 tightens credit availability further by reducing short-term exposure by 25 percent in addition to the cutback in medium- and long-term lending of Variant 1.

These financing requirements were constructed under the assumption that Euromarket interest rates would average 10 percent in 1982.[4] An alternate—and perhaps more likely—assumption that interest rates will average 13 percent would cause current account balances to deteriorate by $400 million for the GDR, $200 million for Hungary, $300 million for Romania, and $800 million for Yugoslavia (see table 3).

We estimate the borrowing capacity for each country according to the baseline assumptions and then under three variants of increasingly difficult borrowing conditions. For the baseline case, we assume that banks

[4] The interest rates used in the projections is a weighted average of the 90-day Euromarket deposit rates for the dollar, West German mark, Swiss franc—the principal currencies in which the East Europeans borrow.

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Table 3 (continued)

	Baseline	Variant 1	Variant 2	Variant 3
Yugoslavia (continued)				
Rollovers of short-term credits	2,000	2,000	1,500	1,000
New official credits	110	110	110	0
Financing gap	310	530	1,030	1,860
Czechoslovakia				
Financing requirement	1,940	1,940	1,940	1,940
Borrowing sources	2,275	2,135	1,785	1,005
Rollovers of medium- and long-term credits	560	420	420	280
Rollovers of short-term credits	1,450	1,450	1,100	725
New official credits	265	265	265	0
Financing gap	(335)[a]	(195)[a]	155	935
Bulgaria				
Financing requirement	770	770	770	770
Borrowing sources	1,380	1,190	1,065	620
Rollovers of medium- and long-term credits	740	550	550	370
Rollovers of short-term credits	500	500	375	250
New official credits	140	140	140	0
Financing gap	(610)[a]	(420)[a]	(295)[a]	150

Variant 3 presumes severe Western government actions to restrict lending to Eastern Europe. The East Europeans can no longer make any drawings on official and officially backed credits, including on outstanding commitments. These actions are also assumed to lead to further 25-percent reductions in private lending to Eastern Europe.

roll over all maturing medium- and long-term obligations as well as short-term debt and that new officially backed credits are drawn at the estimated 1981 rate.

In assuming no serious deterioration in borrowing ability compared with last year, this baseline projection almost certainly is overly optimistic about East European borrowing prospects. Several variants to this baseline are therefore considered in order to assess the impact of cuts in lending in 1982 on the size of each country's financial gap.

The first two variants to the baseline assess the financing shortfall resulting from reductions in the availability of commercial credit. The first variant assumes that the East Europeans are able to roll over only 75 percent of their maturing medium- and long-term credits while maintaining short-term debt at the 1981 level. In the second variant, commercial banks are assumed to take the additional step of cutting short-term credit lines to 75 percent of the yearend 1981 level.

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These first two variants probably reflect more accurately the present situation in which commercial lenders are reluctant to extend new medium- and long-term credits and, in some cases, are cutting short-term lines of credit. In the third variant, we assume that Western governments decide to reduce lending to Eastern Europe by halting all government credits and loan guarantees. Although the direct, incremental impact of such a cutback is comparatively small, such concerted action would accelerate private credit cutbacks considerably beyond the 25-percent overall reduction already assumed. Thus, the third variant reduces rollovers of private debt to 50 percent of baseline borrowing capacity.

Finally, the analysis considers the gap between financing requirements and borrowing capacities under the baseline case and the variants (see figure 3). The discussion focuses on (a) Eastern Europe's options for offsetting reduced Western credits through reserve drawdowns and adjustments in trade (and domestic economic growth) and (b) the likelihood that the adjustments required would be so great that individual countries would choose to reschedule or renege on their debts (see table 4).

German Democratic Republic

East Germany has continued to follow a policy of rapid growth despite a large and rising external debt. In 1981 East Germany needed to finance a hard currency current account deficit amounting to $1.9 billion and to refinance $4.9 billion in credits falling due. Rollovers of old debt and new official credits provided $5.7 billion, and the rest of its $6.8 billion gross financing requirement was met by raising $700 million in new private credits and drawing $400 million out of hard currency reserves. By the end of the year, net hard currency debt had risen to $12.8 billion, second-largest in CEMA, and the debt service ratio had risen to an alarming 69 percent (see appendix).

Baseline. The trade deficit is expected to narrow somewhat this year, so that with interest obligations of some $1.3 billion, the current account deficit is projected to fall to $1.5 billion. Principal repayments on medium- and long-term debt will be $800 million higher than last year and, together with the need to roll over short-term credit lines, will increase the gross financing requirement to $7.2 billion—$800 million more than East Berlin was able to round up last year. If we assume that the GDR can secure the same amount of new government-backed credits, including the swing credit from the FRG, as it drew last year—$800 million—and can roll over all its credits falling due, it will still have a financial gap of $700 million.

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If this cannot be covered through additional supplier credits, East Berlin might be able to absorb import cuts of 5 percent in real terms and take a reserve drawdown of perhaps $500 million without any serious repercussions. East Germany has a reasonably comfortable cushion of reserves—nearly $1.8 billion at the end of 1981, equal to about three months of projected 1982 hard currency imports.

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East Germany's ability to sustain the precarious balance we have described depends critically on favorable perceptions by the Western financial community. For both 1981 and 1982, the total financing requirement, including the rollover of short-term credits, exceeds export earnings by at least $1 billion. Meeting import needs becomes very difficult for the East Germans if they are unable to refinance all credits falling due. The East Germans have been unable to arrange new credits so far in 1982 even with West German banks. They are desperately casting about for very small credit lines (less than $1 million) in an effort to finance current import needs. Deterioration in the East Germans' external position, exacerbated by reductions in deliveries of Polish coal and Soviet oil, has already forced planners to reduce fuel allocations substantially. Such cuts make fulfillment of economic growth targets unlikely. They do, however, indicate an East German willingness to impose domestic austerity in order to balance the external account. In addition to energy conservation measures, East Berlin has imposed extremely tight import restrictions on enterprises and has redoubled efforts to manufacture high-quality products specifically for the export market.

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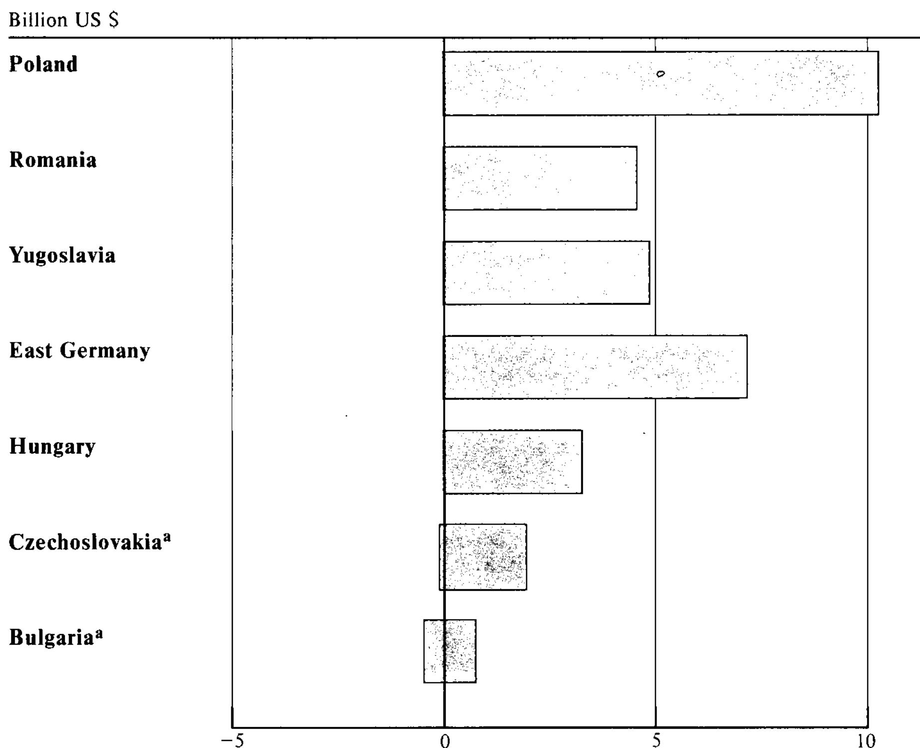
Figure 3

Eastern Europe: Financing Requirements in 1982



[a]The negative portion indicates a current account surplus.

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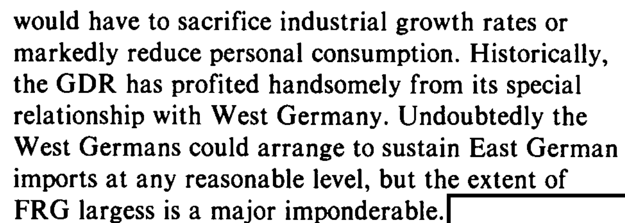
Variant 1. If the GDR lost an additional $800 million in financing as shown in the first variant, it could draw down reserves by another $200 million to two months of import cover. GDR planners, however, would have to make further, more painful import cuts, approaching 15 percent in real terms. Because fuels and raw materials account for the majority of hard currency imports and since the GDR in any case will suffer cutbacks in deliveries of Soviet oil and continued slow deliveries of Polish coal, very little latitude for such large cuts exists. East German planners would have to sacrifice industrial growth rates or markedly reduce personal consumption. Historically, the GDR has profited handsomely from its special relationship with West Germany. Undoubtedly the West Germans could arrange to sustain East German imports at any reasonable level, but the extent of FRG largess is a major imponderable.



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Variant 2. If the financial gap widens by a further $625 million as in variant 2, the East Germans would have to make deep cuts in their imports. The GDR

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Table 4

Eastern Europe: Adjustment Options to Credit Cutbacks in 1982

	Baseline	Variant 1	Variant 2	Variant 3
	Rollover of all maturing private obligations and new official credits equal to 1981 level.	Rollover of only 75 percent of maturing private medium- and long-term obligations; rollover of all short-term debt. New official credits equal to 1981.	Rollover of only 75 percent of all maturing private obligations, including short-term. New official credits equal to 1981.	No new official credit extensions, and rollover of only 50 percent of all maturing private obligations in 1982.
East Germany	All but $700 million of $7.2 billion financing requirement is covered. Remaining gap can be covered by supplier credits, import cuts, and reserve drawdowns.	Even with additional reserve drawdowns, required import cuts will hurt domestic growth and consumption levels.	Debt rescheduling might be preferred to required sharp cuts in imports.	Multilateral rescheduling unavoidable (if FRG goes along with cutoff of new official credits).
Hungary	Most of $3.3 billion financing requirement is covered. Remaining gap can be filled by supplier credits and possible IMF support.	Small reserve drawdown, import cuts, and possible IMF support could cover financial gap.	Necessary import cuts would hurt growth; IMF credits would be critical.	Rescheduling avoidable only by maximum use of IMF credits.
Yugoslavia	All but $800 million of $4.9 billion financing requirement is covered. OPEC credits and reserve drawdowns could cover the shortfall.	Additional aid from OPEC, IMF, World Bank probably sought.	Sharp imports cuts needed with negative impact on growth and consumption.	Could be forced to reschedule.
Czechoslovakia	Credit availability exceeds $1.9 billion financing requirement; reduction in debt occurs.	Credit availability exceeds financing requirement.	All but $155 million of financing requirement can be covered. Reserve drawdowns can cover gap.	Financing gap of $935 million can be covered by reserve drawdowns and sharp cuts in imports.
Bulgaria	Credit availability exceeds $770 million financing requirement by $610 million; continued reductions in debt.	Credit availability exceeds financing requirement by $420 million.	Credit availability exceeds financing requirement by $295 million.	Financing shortfall of $150 million could be covered by import cuts and possible Soviet support.

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already has been holding down imports from the West for several years, and there is little latitude for further cuts without immediate damage to economic growth.

Variant 3. Unless West Germany were willing to provide much additional support, East Germany might opt for debt rescheduling in lieu of further retrenchment on imports. Longstanding ties to East Germany make it extremely difficult for Bonn, which provides the bulk of East Germany's official support, to impose government sanctions against East Berlin. The FRG has recently renewed through mid-1982 the interest-free swing credit at a level of 850 million deutsche marks ($350 million). Notwithstanding the magnitude of official credits—$800 million in 1981—the major impact of official sanctions would be their indirect influence on the banking community, which would quickly rein in East German credit lines even more. If the West refused to reschedule, East Germany would be forced to default.

A first step in reacting to overt Western sanctions would be to slash imports of food, especially grain. A policy of allowing consumption levels to rise well beyond what the small agricultural sector can produce has made the country dependent on imports of Western food, which cost the GDR over $1 billion in 1980. Even with a slash in food imports, however, the East Germans could hardly trim imports enough to make up a credit shortfall as great as the $4 billion implied by this scenario. They would almost certainly seek rescheduling.

Hungary

After posting improved trade and payments performances in 1979-80, Hungary saw its current account deficit widen last year. Weak demand in recession-plagued Western Europe slowed export growth, while higher Euromarket interest rates raised debt service costs. The reluctance of Western lenders to extend new credits to Eastern Europe scuttled Budapest's efforts to raise a major Eurodollar syndication in the latter half of the year. The Hungarians had to cover their cash needs through a drawdown of reserves, continued heavy short-term borrowing, and medium-term bank-to-bank loans carrying shorter maturities and higher interest charges than Budapest had previously received.

Recent weeks have produced an accelerating erosion of Hungary's standing with Western banks, although central bank intervention apparently has eased cutbacks in short-term credit lines by West European banks. Budapest remains locked out of the syndicated market, and medium-term bank-to-bank loans have dried up. The tightening financial squeeze has provoked mounting concern in Budapest, which is anxiously seeking major new credits to meet its cash needs and to shore up its falling foreign exchange reserves.

Baseline. While the increase in Hungary's current account deficit last year raised banker concern, the damage to Budapest's credit rating stems mainly from the reluctance of Western lenders to do business with Eastern Europe. On its own merits, Budapest's basic financial position is not hopeless. Although the Hungarians are reportedly counting on no more than 2- to 3-percent growth in hard currency exports in 1982, they should be able to maintain a trade surplus and possibly reduce the current account deficit. With a debt service ratio of 37 percent, Hungary's debt burden would seem manageable.

Even a slight easing of present banker concern over lending to Eastern Europe could extricate the Hungarians from their predicament. If Budapest can roll over its $880 million of medium- and long-term debt maturing in 1982, maintain short-term credit at last year's level, and obtain the same amount of government credits as last year, its uncovered financial gap would amount to only $310 million. This could be covered through greater use of private supplier credit. The Hungarians already dabbled in "creative" import financing late last year when they picked up $130 million to pay for chemical purchases through a syndication of banker acceptances. If Hungary joins the International Monetary Fund, which it could do as early as April, Budapest could raise some $400 million in low-conditionality IMF loans.

Variant 1. If Western banks refinance only 75 percent of maturing medium- and long-term credits, this would complicate Hungary's position only slightly as long as short-term funds remained available. Budapest could probably find the additional $220 million by drawing reserves down $100 million and holding imports at about the 1981 level.

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Variant 2. Budapest's present financial options would likely be foreclosed only by a permanent and widespread cutback in short-term credits, which could balloon Hungary's 1982 cash shortfall to more than $1 billion.

The Hungarians' ace in the hole before having to reschedule could be their impending admission to the IMF and World Bank. Maximum access to Fund credit could provide as much as $2.5 billion over the next three years in balance-of-payments financing. Since Budapest has already demonstrated a readiness to slow the growth of consumption and investment to maintain external balance, it presumably would have little problem in meeting IMF borrowing conditions. Furthermore, access to World Bank loans could provide fallback development financing over the longer term if Western bank loans remained slow.

Variant 3. Since Budapest makes little use of supplier credits, a cutoff of official guarantees, per se, would not seriously disrupt its trade. Of course, this action would probably precipitate the sizable cutback in commercial lending that would force Budapest to fall back on the IMF. If that escape route were closed, the Hungarians would likely be forced into rescheduling their debt.

Adjustment Options. The Hungarians have little leeway to offset a Western financial cutback through internal adjustment or greater reliance on CEMA. Planners have already slowed economic growth to 1 percent or less and halted improvements in living standards since 1978 in order to achieve external balance. Present 1982 plans call for holding the growth of national income to 1.0 to 1.5 percent and the increase in total consumption to 0.5 to 1.0 percent in order to hold down imports and free up goods for export. Total exports are targeted to increase by 6 percent, while imports are to grow by 2 to 3 percent. Although Budapest is planning a sizable increase in deliveries to other CEMA members, these exports will mainly cover higher prices for Soviet energy and raw materials. Clearly the USSR will not replace the fuels and raw materials Budapest now purchases in the West—more than half of Hungary's hard currency imports. Indeed, domestic shortfalls are forcing the Soviets to limit and, in the case of oil, reduce the volume of deliveries to Hungary.

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Yugoslavia

Belgrade reduced its hard currency current account deficit from a record $3.3 billion in 1979 to $1.4 billion in 1981. The trade deficit remained dangerously high, however, at $5.2 billion in 1981, because Belgrade failed to raise its hard currency exports. While exports worldwide registered a 5-percent increase in real terms, exports to the convertible area declined 3 percent. The strong performance of invisibles (tourist receipts and remittances from Yugoslav guestworkers abroad) was the key positive factor in Yugoslavia's balance of payments in both 1980 and 1981. At the end of 1981, official reserves stood at a comfortable $1.8 billion, enough to cover two months of hard currency imports.

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Baseline. We project that Yugoslavia's current account deficit will exceed $1.2 billion in 1982, $700 million more than the official Yugoslav projection. Adding medium- and long-term principal repayments of $2.3 billion and short-term debt of $1.4 billion raises the financing requirement to $4.9 billion. Belgrade can probably secure $1.7 billion in trade credits, $700 million from a second tranche on a three-year IMF loan, and close to $1 billion in financial credits from European and OPEC sources. The remaining $1.5 billion gap would have to be closed through either (a) barter deals for OPEC oil, (b) import cuts, or (c) reserve drawdowns. Import cuts would further restrict GNP growth, which, in 1980-1981, had already slowed to half the 6-percent average rate of the 1970s. The scope for further import cutbacks is limited since Belgrade has drastically cut imports in the last two years and inventories of imported goods have been depleted.

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Increased dependence on the Soviet Union is an option but not a particularly desirable one for Yugoslavia. In 1981 the Soviet Union already accounted for one-fourth of total Yugoslav trade; Moscow provided 90,000 barrels per day of crude oil—roughly 40

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percent of total Yugoslav crude oil imports—at market prices. Yugoslav leaders have openly expressed fear that increased dependence on the Soviets would enable Moscow to use economic pressures to alter Belgrade's political decisions. Having broken with the Soviet Bloc in 1948, Yugoslav leaders are firm in their desire to maintain Belgrade's nonaligned status in both international relations and the domestic economic arena. Moreover, the more accustomed Yugoslav export industries become to the lower standards demanded by CEMA markets, the more thwarted will be government attempts to increase exports to hard currency markets.

Variants 1 and 2. Yugoslavia would probably try to cover the additional $575 million gap in Variant 1 through greater reliance on borrowing from international institutions and OPEC sources. The IMF and World Bank could provide an additional several hundred million dollars. Belgrade, however, would have to meet tougher conditionality for larger IMF loans, and this might prove difficult given the problems encountered in negotiating policy measures for the current loan agreement. In addition, the OPEC nations—with which Belgrade has cultivated a special relationship through its prominent role in the Nonaligned Movement—might be willing to provide more credit to Belgrade.

If the Yugoslavs were unable to raise sufficient additional credits, they would have to look to cutbacks in imports—of as much as 5 percent from the 1981 level—to reduce their financing needs. Such import reductions would prove quite painful, pushing the GNP growth rate to 1 percent or less. Nonetheless, this course of action would seem the only option available under Variant 2 where reductions in short-term lending push Yugoslavia's gap to more than $1.7 billion.

Variant 3. Since Yugoslavia is not a CEMA member and the West has sought to preserve its nonaligned and independent status, credit sanctions presumably would not be applied to Belgrade. However, if Yugoslavia did suffer from a spillover effect from sanctions that increased its financial gap to $3 billion, it would be in serious financial trouble. Belgrade would probably request rescheduling rather than risk the possible political consequences of the drastically reduced living standards and increased unemployment that would result from cuts in real imports of 10 percent or more.

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Czechoslovakia

Czechoslovakia's current account deficit fell by roughly $250 million in 1981 to $150 million, largely on the strength of improved trade performance. The deepening chill in East-West financial relations left Czechoslovakia largely unscathed because Prague has typically avoided major Eurodollar loans and relied principally on short- and medium-term supplier credits to cover its borrowing needs. Indeed, private and officially guaranteed supplier credits apparently were more than adequate to meet financing requirements last year, as Prague retired some maturing medium- and long-term loans from Western banks. Although the leadership's conservative borrowing policies have denied needed Western technology to the country's aging industrial plant, they have ensured a solid financial position and the lowest debt service ratio (22 percent) in Eastern Europe.

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Baseline. Czechoslovakia's current account will probably continue to improve this year, attaining virtual balance if not a small surplus. The trade surplus should rise by about $150 million to roughly $530 million, while interest payments on outstanding debt will fall. Assuming a full rollover of all maturing debt, Czechoslovakia's available funds would exceed its projected financing needs.

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Variants 1 and 2. Even if Prague had to repay one-fourth of its maturing $560 million in medium- and long-term debt, it still would not face a cash squeeze. An additional 25-percent cut in short-term lending under Variant 2 would produce a $155 million financing shortfall, but this could easily be covered by a reduction in reserves. Even with a further drawdown, reserves would still be adequate, covering some two months of hard currency imports.

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Variant 3. Western government credit sanctions would probably have only a small impact on Czechoslovakia's trade and payments. Although officially backed credits are projected to cover more than one-third of Prague's medium- and long-term borrowing

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requirements in 1982, denial of these funds would force a cut in nominal imports of no more than 5 percent. Since bank-to-bank financing is less important for Czechoslovakia than for other East European countries, a sharp cutback in bank credit lines with Prague would not be extremely damaging as long as Czechoslovakia could maintain access to supplier financing. However, if widespread reductions in medium-term supplier credits forced Prague to rely more heavily on short-term financing for imports, its debt management would be complicated by a more compressed maturity structure.

Adjustment. A shutoff of Western credits would probably have little internal impact on Czechoslovakia. Prague has already sacrificed growth to minimize dependence on Western trade and credits. Hard currency debt is equal to only 4 percent of GNP, the lowest ratio for all of Eastern Europe. Moreover, with its current account in balance or surplus, Prague can meet basic import needs out of current earnings.

Bulgaria

Another large trade surplus in 1981 enabled Bulgaria to retire $600 million of hard currency debt. In 1982, debt service should be about the same as in 1981—around $1 billion. Bulgaria should have no trouble meeting debt service obligations and import requirements with a combination of sustained exports, supplier credits, and official and commercial loans. Thus the *baseline* scenario would involve few adjustments for Bulgaria. Furthermore, conditions as described in *Variant 1* and *Variant 2* would only prevent Bulgaria from retiring its hard currency debts as rapidly as it could otherwise. Bulgaria's solvency would only be threatened by a virtually complete credit cutoff from the West. Moreover, though the span of the Soviet umbrella may actually be quite limited, Bulgaria remains very close to its center.

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Appendix

Eastern Europe: Hard Currency Debt, Current Account Balances, and Borrowing Sources

Table A-1

Million US $
Except As Noted

Eastern Europe: Hard Currency Debt [a]

	Poland		Romania		Yugoslavia		East Germany		Hungary		Czechoslovakia		Bulgaria	
	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981	1980	1981
Gross debt	24,840	26,000	9,457	10,700	16,900	18,400	13,900	14,500	9,100	8,700	4,890	4,620	3,510	2,975
Officially guaranteed	10,350	13,500	2,000	2,100	2,250	2,350	2,500	2,900	400	400	850	900	440	475
Private	14,490	12,500	6,277	7,050	12,550	13,250	11,400	11,600	8,700	8,300	4,040	3,720	3,070	2,500
IBRD/IMF	0	0	1,180	1,550	2,100	2,800	0	0	0	0	0	0	0	0
Reserves	650	150	489	350	1,370	1,800	2,150	1,750	1,390	990	1,250	900	780	850
Net debt	24,190	25,850	8,968	10,350	15,530	16,600	11,750	12,750	7,710	7,710	3,640	3,720	2,730	2,125
Debt service ratio [b] *(percent)*	101	148	25	32	47	76	55	69	30	37	18	22	32	36
Debt-to-GNP ratio *(percent)*	15	16	8	8	25	27	10	10	17	15	4	4	9	7
Reserves-to-imports ratio *(percent)*	8	2	6	5	13	17	30	25	30	22	27	20	38	34

[a] Preliminary estimates.
[b] Repayments of medium- and long-term debt plus interest on net debt as a share of exports to non-Communist countries.

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Table A-2

Million US $

Eastern Europe:
Current Account Balances [a]

	Bulgaria			Czechoslovakia			East Germany			Hungary		
	1980	1981	1982	1980	1981	1982	1980	1981	1982	1980	1981	1982
Current account balance	**940**	**560**	**470**	**−393**	**−150**	**70**	**−1,919**	**−1,900**	**−1,500**	**−486**	**−580**	**−420**
Trade balance	997	616	400	7	375	530	−1,909	−1,391	−1,240	279	443	440
Exports	3,056	3,092	3,370	4,597	4,827	5,070	5,185	5,703	6,000	4,911	4,862	4,960
Imports	2,059	2,477	2,970	4,590	4,452	4,540	7,094	7,094	7,240	4,632	4,418	4,500
Net invisibles excluding interest	255	287	320	−30	−30	−30	900	1,025	1,050	0	0	0
Net interest	−312	−343	−250	−370	−495	−430	−910	−1,534	−1,310	−765	−1,023	−880

	Poland			Romania			Yugoslavia		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
Current account balance	**−2,600**	**−1,340**	**−2,600**	**−2,399**	**−800**	**−450**	**−2,200**	**−1,400**	**−1,200**
Trade balance	−700	60	600	−1,534	175	500	−5,700	−5,200	−4,700
Exports	7,400	5,515	5,400	6,503	7,250	7,500	4,900	5,400	5,900
Imports	8,100	5,455	4,800	8,037	7,075	7,000	10,600	10,600	10,600
Net invisibles (excluding interest)	300	500	100	−77	25	50	4,500	5,700	6,300
Net interest	−2,200	−1,900	−3,300	−788	−1,000	−1,000	−1,000	−1,900	−2,800

[a] Because of rounding, components may not add to the totals shown.

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Table A-3 *Million US $*

Eastern Europe: Borrowing Sources, 1981

	Poland	Romania	Yugoslavia	East Germany	Hungary	Czechoslovakia	Bulgaria
Total	**9,140**	**4,085**	**5,430**	**6,400**	**3,680**	**1,950**	**910**
Government-backed credits	5,750	400	400	800	110	265	140
Private credits (medium- and long-term)	2,810	2,000	2,830	2,400	1,500	190	270
IBRD/IMF credits	0	370	800	0	0	0	0
Short-term credits	900	640	1,400	2,500	2,000	1,450	500
Other and unallocated	−320 [a]	675 [b]	0	700 [c]	70	45	0

[a] Poland reported a net outflow of $313 million in extensions of trade credits through 30 September 1981.
[b] Net total presumably reflects payment arrearages (inflow) less extensions of trade credit (outflows).
[c] Appparently results from the sizable appreciation of the dollar against the West German mark and Swiss franc in which much of East German debt is denominated.

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