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International Economic & Energy Weekly

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24 May 1985

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15 **The Turkish Economy Under Ozal**

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19 **Thailand: New Push for Export Reform**

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The Prem government has made an impressive start in implementing measures to ease the country's foreign payments strains and boost Thai export competitiveness. We expect sufficient progress to ensure at least moderate growth in exports through the end of Prem's term in 1987.

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Perspective

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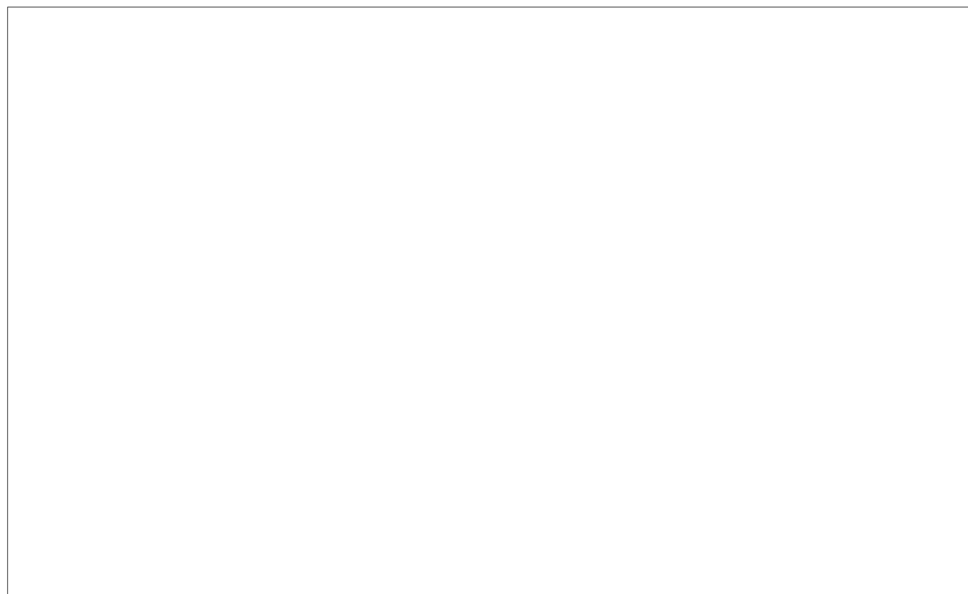

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Saudi Arabia: The Struggle for a Balanced Budget

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Budget Dilemma Illustrated: A Mountain of Wheat

Wheat subsidies illustrate the difficult policy decisions Saudi officials will have to make during the next several years. During the 1970s, Saudi officials became concerned that they were vulnerable to Western pressures because of their dependence on food imports. Self-sufficiency was costly but affordable as long as oil revenues were continuing to grow. Now officials must choose between their deeply felt financial obligation to balance the budget and the goal—still considered important—of negating any leverage by wheat exporting countries

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Riyadh's policy of giving free land, concessional financing for equipment, and subsidized water and other inputs has paid off handsomely in terms of production. This year's wheat harvest of an estimated 2.3 million tons is 10 times the output just three years ago and far above domestic consumption of 800,000 tons per year. Even storage is a problem. The Grain Silos and Flour Mills Organization's (GSFMO) silos can hold only 1 million tons of wheat, and they still contain 700,000 tons from last year's crop. The US Embassy estimates that another 1 million tons of private storage may exist, but, even if that is empty, almost half of the wheat harvest will have to be stored in the open.

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GSFMO has not been allocated enough money to pay for the wheat, let alone build new silos. Although officials have reduced the guaranteed purchase price for wheat from $972 a ton to $555 a ton, farmers still receive three and a half times the world market price. Riyadh will have to cough up $1.3 billion to pay for the wheat, but only $536 million has been allocated to GSFMO in the current budget

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Iraq: Debt Problems

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Iraq's failure to make some debt payments in early April reflects Baghdad's increasing difficulties managing its mounting foreign debts. Although Iraq probably will secure further debt rescheduling and additional Arab aid, import cutbacks are likely. We believe Baghdad will avoid unpopular cuts in consumer good imports by delaying some major weapons purchases and stretching out development projects. Iraq's finances will remain fragile, and a steep drop in oil prices or large battlefield losses could force politically risky reductions in civilian imports.

Debts and Missed Payments

The cost of the war and loss of oil export facilities through the Persian Gulf and Syria have wrecked Iraq's finances. Since 1980 Baghdad has turned to other Arab states—especially Saudi Arabia and Kuwait—for $30 billion in aid, drawn down foreign assets by $29 billion, and run up an $8.5 billion debt to non-Arab states. Despite this financing, civilian imports—primarily development projects—have been slashed.

Iraq's immediate debt troubles reflect a hump in payments caused by the short-term structure of its non-Arab debt—we suspect debts to Arab states will probably never be paid. Most loans have been undertaken since 1982 and have only two-year repayment periods. As a result, Baghdad owes an estimated $3 billion in debt payments this year on rescheduled 1983 debts and initial payments on 1984 debts.

At the beginning of April, Iraq surprised Japanese, Yugoslav, and Indian creditors by not making scheduled debt payments and by asking again for rescheduling. At the same time, however, Baghdad made payments to its other major creditors, according to the US Embassy in Baghdad. Iraq also is continuing payments to the US Commodity Credit Corporation to which it has outstanding debts of approximately $1 billion.

Iraq's decision not to pay individual creditors rather than bring together all its creditors for rescheduling talks probably reflects a belief that some countries can be pressured to provide more relief:

- Baghdad probably opted to not make its first installment on the approximately $700 million it owes Japanese firms this year because Tokyo's offer of only a $200 million credit line for 1985 fell short of Iraqi expectations. Most other Western creditors have offered to maintain or expand credit in 1985.

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- Yugoslavia and India, Baghdad's largest non-Western non-Soviet creditors, have shown a willingness to reschedule Iraqi debt to maintain business. Moreover, neither country is likely to extend additional credit, and thus Baghdad does not risk losing potential sources of new financing.

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Lower than expected oil revenues and somewhat higher war costs contributed to the early April payments crunch. Bad weather at the Ceyhan terminal of the Turkish pipeline in late February caused average oil exports for the month to fall by about 100,000 b/d,

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Press reports indicate Iraq was having some difficulty marketing its oil because it was resisting making price concessions. In late March, Iraq probably increased munitions expenditures somewhat to replenish stocks used to repel the latest Iranian offensive and in preparation for another major Iranian attack. Ammunition—unlike weapons purchases—usually requires cash payment rather than credit terms.

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Muddling Through the Rest of the Year

We believe Baghdad will secure additional Arab aid as well as debt rescheduling and credits from most of its major trading partners to minimize

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Iraq's 1985 Payments Dilemma *Billion US $*

	Case I [a]	Case II [b]
Sources of foreign exchange	**15.4**	**17.3**
Export revenues (over 90 percent oil)	11.1	11.1
Arab aid	2.9	3.4
Export credits and rescheduled payments	1.4	2.8
Foreign exchange requirements	**18.0**	**17.3**
Civilian imports and invisibles	12.0	11.8
Military imports	3.0	2.5
Debt payments due	3.0	3.0
Shortfall	**−2.6**	

[a] Case I illustrates the hypothetical shortfall in foreign exchange given current policies. This case assumes Iraqi exports of 1.1 million b/d priced at $27.50 per barrel; Arab oil sold to aid Iraq averages 300,000 b/d priced at $26.50 per barrel; credit lines available and rescheduling agreements as of the end of March 1985; military and civilian imports equal to 1984 levels; debt payments due at the beginning of 1985.
[b] Case II represents our best estimate of how Iraq will deal with the shortfall. This case assumes Arab oil aid at 1984 average of about 350,000 b/d; exporters extend additional credits, and some debts are rescheduled; civilian imports are only slightly lower than 1984 as a result of stretching out development spending, and military spending is cut by about 15 percent by stretching out modernization of the armed forces.

politically risky cuts in imports of consumer goods. Based on oil revenues, Arab aid, new credits, and rescheduling obtained during the first four months of the year, potential foreign exchange amounts to about $15.4 billion this year. In contrast, if military and civilian imports remain at last year's level, Iraq will need about $18.0 billion to meet expenses and debt payments. Lacking substantial foreign exchange reserves, Baghdad must cover the $2.6 billion difference by securing additional rescheduling, credits, and Arab aid and by stretching out the procurement of new weapon systems and development projects.

Although most countries are uneasy about offering additional credit to Iraq, all seem resigned that payment problems are the price of maintaining a position in Iraq's potentially lucrative market. Baghdad has reinforced this view by warning that it will remember its friends when the war is over. Creditors probably are also concerned that restricting financing might weaken the Iraqi regime, risking an Iranian victory or change of government that would lessen chances for future payments.

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Iraq's strategy of playing off its trade partners against each other also appears to be having some success at obtaining necessary reschedulings and debt deferrals:

- France agreed in March to Iraqi requests for a three-year deferral of $300 million in debts, according to press reports. Most creditor countries have resisted terms longer than two years, and the French action should increase pressure on other exporters to offer longer terms.
- The United Kingdom granted a $350 million credit line in the beginning of May, and Italy has pledged to maintain its credit line of $500 million, according to press reports.
- Although Japanese firms have resisted Iraqi pressure to reschedule, the companies are negotiating, and we suspect they will come to terms rather than declare Iraq in default. Such a drastic action would mean a substantial loss to the firms involved because they are not fully insured against nonpayment.

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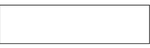
Iraq's pipeline through Saudi Arabia will increase Iraq's capacity to export oil from about 1.1 million b/d to about 1.6 million b/d, and reassures creditors about Baghdad's ability to eventually pay its debts. Although scheduled for completion by October, it is two months behind schedule, A planned second pipeline through Turkey could raise oil exports another 500,000 b/d by mid-1987. These new pipelines, however, may not ease Baghdad's debt problems as much as hoped. OPEC is likely to pressure Iraq to limit exports, and a likely decline in Arab oil aid after the lines open will partially offset gains.



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Fiscal austerity in Saudi Arabia, Kuwait, and other Gulf states has made Baghdad's principal donors less inclined to provide aid for Iraq, but the recent Iranian offensive and Tehran's preparations for another will probably generate additional financial support from Saudi Arabia and other Gulf states. Riyadh's support to Iraq in the past has increased with heightened military activity. The United Arab Emirates discontinued its limited financial support to Iraq early this year because of general budget austerity, but the US Embassy in Abu Dhabi believes aid would be resumed if Iran launches another major offensive.

Although Iraq should muddle through its debt problems, cash flow problems will persist, and Baghdad probably will miss some more debt payments over the next several months. Who gets paid will depend on political considerations, and how nonpayment would affect future credit. For example, the US Commodity Credit Corporation probably will be spared requests for rescheduling because Baghdad places high priority on relations with the United States and is seeking additional credit through the US Export-Import Bank. France and the Soviet Union—Iraq's major arms suppliers—will continue to be paid on time. Third World and East European countries and suppliers without government backing, will be the first to go unpaid during cash-short periods.

Avoiding Major Cuts in Consumer Imports

Even with some relief from foreign creditors and Arab donors, Iraq's credit problems are such that it will probably be forced to make small reductions in imports. So far, Baghdad has generally succeeded in insulating Iraqi consumers from the effects of war. Despite deep cuts in civilian imports, the availability of consumer goods has only declined slightly since the beginning of the war.

We believe that rather than risk unpopular cuts in civilian imports Baghdad will defer major weapons purchases and make small cuts in development spending by stretching out the few remaining projects. Although Iraq used large quantities of munitions to repel Iran's March offensive, losses of military equipment were small and replaceable from existing stocks. Most military spending is currently used to upgrade weapon systems, such as replacing old tanks with newer models, rather than to replace lost materiel. Given Iraq's vast numerical and technological superiority in armored vehicles, aircraft, and artillery, Baghdad can afford to delay purchasing new weapons without significantly altering its strategic advantage.

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A large fall in oil prices or substantial battlefield losses of equipment probably would force Baghdad to make the deep cuts in civilian imports it has sought to avoid. This could threaten the regime by antagonizing the war-weary populace:

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- A major oil price decline would seriously undermine Iraq's finances by lowering export revenues, discouraging further credit, and reducing the willingness of its oil-producing Arab benefactors—similarly affected by oil prices—to give still more aid.
- Although unlikely, large losses of military equipment in the war would leave little choice but to cut civilian imports.

Cutting imports now would be particularly unpalatable following Iraq's overblown claims of recent battlefield victories and official optimism surrounding the opening of new export pipelines.

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Yugoslavia: Good Performance in 1984, Uncertain Outlook

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Aided by financial support from the IMF, Western governments, and banks, Yugoslavia's economy made a relatively good showing in 1984. Growth reached its highest rate in four years, and strong export gains improved the country's external financial position. These results prompted the IMF to call 1984 a "watershed" year for Yugoslavia, but the Fund's optimism may be premature. The economy is off to a poor start in 1985, and the Planinc government is under growing pressure to deal with rising inflation and falling living standards. Western creditors are looking for evidence of structural adjustment to ensure long-term growth and external balance, but prospects for such changes are uncertain at best. Yugoslavia probably faces more years of slow economic growth and difficult negotiations with creditors.

Yugoslavia: Economic Indicators *Percent change*

	1982	1983	1984	1985 [a]
GNP (social production)	0.5	−1.3	1.7	3.0
Industrial output	0.1	1.3	5.5	4.0
Agricultural output	7.5	−1.5	1.3	2.5
Gross fixed investment	−5.5	−10.0	−6.0	2.0
Industrial labor productivity	−3.1	−1.3	2.8	1.5
Unemployment	12.4	12.8	13.3	NA
Real incomes	−2.7	−9.1	−6.0	1.1
Retail prices	31.0	39.0	57.0	45.0
Personal consumption	−0.1	−1.7	−2.0	2.0

[a] Plan.

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Performance in 1984

In 1984 Yugoslavia recorded its strongest economic growth since 1980 as gross social product—roughly equivalent to GNP—rose 1.7 percent. Aided by increased imports of materials, industry led the recovery with a 5.5-percent increase in output following two years of near stagnation. Much of the upswing was in export sectors that benefited from growth in Western demand and enhanced competitiveness resulting from large devaluations of the dinar. Domestic demand continued to decline in response to IMF-supported austerity measures intended to ease inflationary pressures, limit import requirements, and free up production for export. Investment again shouldered most of the reduction in domestic use of output, although personal consumption fell for the fourth consecutive year.

Yugoslavia extended the gains in hard currency trade and payments that began in 1983. A 9-percent increase in exports enabled Belgrade to reduce its hard currency trade deficit by $500 million while easing restraints on imports. The hard currency current account surplus rose by $600 million to $850 million, a sharp turnaround from the large deficits incurred since the late 1970s. Foreign exchange reserves grew by $536 million, exceeding the IMF target of a $500 million increase. Even with these gains, Belgrade had to reschedule debts with Western banks and governments for a second consecutive year and draw on IMF standby credits.

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The pickup in economic growth and improved external performance have not won praise from the Yugoslav people burdened with rising inflation and unemployment. Inflation accelerated to more than 50 percent—partly as a result of lifting price controls and the devaluations. The price increases together with restraints on wage gains have cut real personal income by 30 percent since 1979. The reduction of private consumption has been much less severe because withdrawals from dinar and private foreign exchange accounts and widespread

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Yugoslavia: Hard Currency Financial Statistics *Million US $*

	1979	1980	1981	1982	1983	1984 [a]
Trade balance	−6,570	−5,665	−4,880	−3,519	−1,690	−1,171
Exports	4,766	5,656	5,720	5,526	6,047	6,588
Imports	11,336	11,321	10,600	9,045	7,737	7,759
Current account balance	−3,356	−2,204	−1,821	−1,580	246	865
Net debt	13,731	17,608	18,337	18,488	19,002	18,602

[a] Preliminary.

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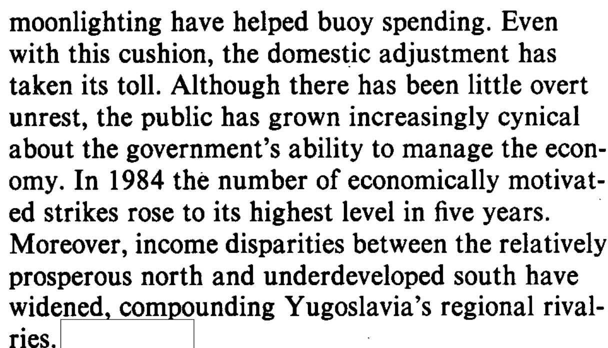

moonlighting have helped buoy spending. Even with this cushion, the domestic adjustment has taken its toll. Although there has been little overt unrest, the public has grown increasingly cynical about the government's ability to manage the economy. In 1984 the number of economically motivated strikes rose to its highest level in five years. Moreover, income disparities between the relatively prosperous north and underdeveloped south have widened, compounding Yugoslavia's regional rivalries.

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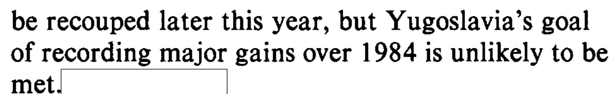
1985 Off to a Poor Start

First results for 1985 have all but dashed Belgrade's hopes of improving significantly on 1984 performance. Growth of industrial production slumped sharply in the first months of the year, largely as a result of exceptionally severe winter weather. Already high inflation accelerated to an annual rate of more than 80 percent in April, prompting the government to reimpose some price controls. Most important, external payments performance deteriorated sharply. The first-quarter hard currency trade deficit of $215 million was nearly 50 percent larger than the first-quarter deficit a year ago. Imports rose 5 percent—largely as a result of increased oil purchases—while exports declined. By March, Belgrade had reduced its foreign exchange reserves by more than the increase recorded in 1984. Some of the economy's losses will probably



be recouped later this year, but Yugoslavia's goal of recording major gains over 1984 is unlikely to be met.

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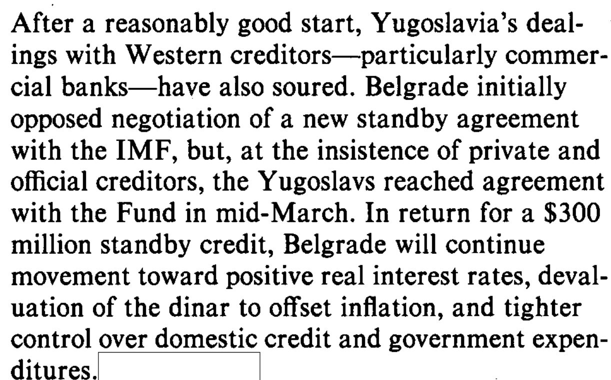

After a reasonably good start, Yugoslavia's dealings with Western creditors—particularly commercial banks—have also soured. Belgrade initially opposed negotiation of a new standby agreement with the IMF, but, at the insistence of private and official creditors, the Yugoslavs reached agreement with the Fund in mid-March. In return for a $300 million standby credit, Belgrade will continue movement toward positive real interest rates, devaluation of the dinar to offset inflation, and tighter control over domestic credit and government expenditures.

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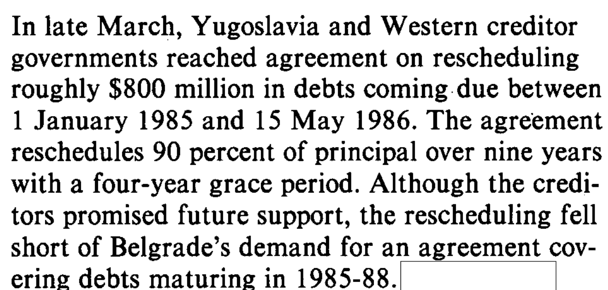

In late March, Yugoslavia and Western creditor governments reached agreement on rescheduling roughly $800 million in debts coming due between 1 January 1985 and 15 May 1986. The agreement reschedules 90 percent of principal over nine years with a four-year grace period. Although the creditors promised future support, the rescheduling fell short of Belgrade's demand for an agreement covering debts maturing in 1985-88.

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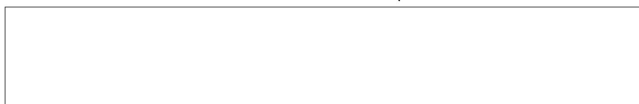

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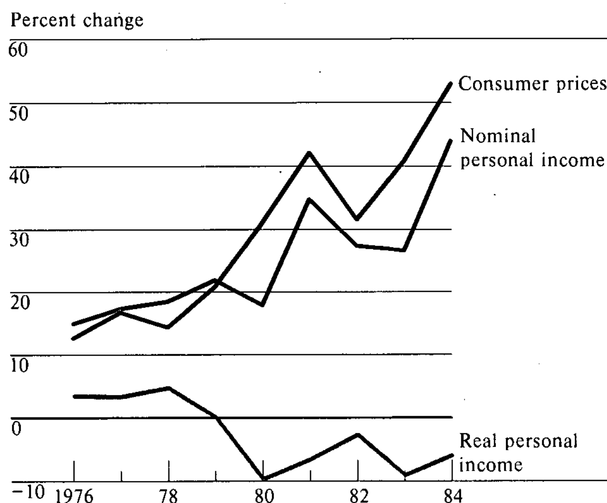
Yugoslavia: Inflation and Personal Income Trends, 1976-84



The Problem of Structural Change

If final results for 1985 fall short of last year's gains, doubt would be cast on Yugoslav and IMF claims that Belgrade's adjustment efforts are beginning to produce the changes needed to achieve both growth and external balance. The IMF termed last year's performance a "watershed" for Yugoslav economic policy on grounds that Fund prescriptions for lifting controls on prices and interest rates, reducing subsidies to money-losing enterprises, tying wage increases more closely to enterprise performance, and devaluation of the dinar were starting to promote greater efficiency and shift resources to the export sector. Western creditors, however, remain skeptical that structural adjustment is taking place. They are looking for more than restraints on domestic demand, increases in administered prices and interest rates, and maintenance of a competitive exchange rate. They are seeking evidence of systemic changes needed to control underlying inflationary forces and to reduce the economy's dependence on foreign borrowing:

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- Reducing the power of regional authorities to exert controls that prevent goods, capital, labor, and foreign exchange from flowing to their most efficient uses.
- Enforcing greater financial discipline on enterprises through tougher application of bankruptcy laws, controls on intraenterprise credits, and reduced subsidization of inefficient producers.
- Reducing the influence of political criteria on investment decisions.
- Changing wage determination to link earnings more closely to productivity.

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Progress has been made in these areas, but the IMF believes much more needs to be done.

We doubt that Belgrade has the political willpower or ability to enforce this economic discipline. From

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Belgrade's perspective, the costs of reform are high—inflation, sliding living standards, bankruptcies, and rising unemployment—and the payoff is neither quick nor certain. Many of the measures challenge the basics of the country's self-management system and conflict with ethnic or regional interests. The extremely heterogenous nature of Yugoslav society has made implementation of many changes impossible even under stronger central management in the past.

Change so far has been forced on Yugoslavia by creditors and the IMF, but Belgrade is trying to avoid further IMF standby programs. Yugoslav economists are divided over the wisdom and effects of IMF-sanctioned measures, and some senior leaders fear Yugoslavia is being forced into "neocolonial" status. The advocates of reform, at best, can hope for tinkering with the system and uneven implementation of measures by the regions. Meanwhile, the Planinc government will face the threat of a growing conservative backlash, fueled by pressures to ease the pain of austerity measures.

Outlook

The slow and uncertain pace of change in Yugoslavia and the likelihood of disappointing economic results this year may force Belgrade to revise downward its ambitious goals for growth and external payments performance through 1990. Creditors already unhappy over Yugoslavia's intransigence and delaying tactics are likely to take a harder view of the country's creditworthiness and to press for continuation of strict IMF oversight. Belgrade's hopes of reflating the economy to halt the erosion of living standards and to resume faster economic growth are likely to be dashed. More years of difficult dealings with creditors and slow economic growth are probably in the offing as the economy struggles to service its $18.6 billion foreign debt.

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The Turkish Economy Under Ozal

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Since Prime Minister Ozal took office in late 1983, economic growth and the foreign payments position have improved. Inflation and unemployment have worsened, however, and we believe the government will come under increasing pressure from the military and the public unless there is progress in these two areas. Ozal should be able to point to some improvement in inflation by early next year, if he delivers on his promise to slow monetary growth and reduce the budget deficit.

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Turkey: Balance of Payments,[a] 1982-85 — *Million US $*

	1982	1983	1984[b]	1985[c]
Trade balance	−2,660	−2,990	−2,958	−2,668
Exports (f.o.b.)	5,746	5,905	7,389	8,663
Imports (f.o.b.)	8,406	8,895	10,347	11,331
Balance on invisibles	1,799	1,162	1,516	1,658
Tourism (net)	224	292	271	320
Worker remittances	2,189	1,569	1,901	1,900
Interest payments (before debt relief)	1,465	1,441	1,578	1,550
Other (net)	851	742	922	988
Current account balance	**−861**	**−1,828**	**−1,442**	**−1,010**

[a] In consultation with the IMF, Turkey has just revised its balance-of-payments methodology. All balance-of-payments references in the text are based on the new figures.
[b] Estimated.
[c] Official Turkish Government projection.

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The Ozal Approach

Ozal won election on 6 November 1983 in part on the strength of his promise to revive the Turkish economy, which had begun to slip after making a remarkable recovery from the economic crisis of the late 1970s. Ozal's policy focuses on making the economy more responsive to market forces—mainly by reviving the 1980 economic stabilization program he developed when he was economic czar under the conservative government of Prime Minister Demirel. The Turkish military, which handed over the reins of government to Ozal, has generally given him a free hand in the running of the economy, in contrast to the decisive role it still plays in security policy.

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Ozal's Balance Sheet

Real GDP grew by almost 6 percent last year, up from 3.8 percent in 1983. Industry and commerce led the way, with growth rates of 8.7 percent and 7.6 percent, respectively, while agricultural output grew 3.6 percent. Meanwhile, the current account deficit narrowed from $1.8 billion to $1.4 billion, despite an increase in interest payments and the liberalization of imports and foreign travel.

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The improved performance was due, in large measure, to a surge in exports—up 25 percent last year after near stagnation in 1983. Exports of industrial goods soared nearly 40 percent and accounted for almost three-fourths of the total—a dramatic change for a country that, five years earlier, was still primarily an agricultural exporter. The net invisibles balance rose 30 percent because of a sharp increase in worker remittances, following two years of substantial declines. Imports rose 16 percent as crude oil costs—benefiting from the moderation in oil prices—grew only 4 percent to $3.4 billion.

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On the negative side, both inflation and unemployment have risen since Ozal took office:
- Retail prices climbed 52 percent last year—compared with 31 percent in 1983—and inflation accelerated further during first quarter 1985 to an annual rate of approximately 60 percent.

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Ozal's Economic Program

Fiscal and monetary measures:
- *Personal and corporate income tax cuts in 1984 to promote saving and investment.*
- *A value-added tax of 10 percent this past January to increase government revenue.*
- *Hikes in real interest rates to positive levels and promises of slower money supply growth.*

Measures to reduce the pervasive role of the government in the economy:
- *Sale of revenue shares in the Bosphorus Bridge and Keban Dam to private investors and plans to sell shares in the national airline.*
- *Proposed legislation that would privatize the largely nationalized mining sector and open it to foreign investment.*
- *Reorganization and cutbacks in the public sector including more efficient management of state enterprises and reduced subsidies on prices of public-sector products.*

Trade and foreign exchange measures:
- *Tariff cuts and removal of many import license requirements.*
- *Limitation on the use of export licensing.*
- *Exporters are now permitted to keep 20 percent—up from 5 percent—of their foreign exchange earnings.*
- *Incentives for companies with over $30 million in exports in 1983 in the form of special credits, duty-free imports, and foreign exchange.*
- *Commercial banks are free to buy and sell foreign currency within a certain range around the official rate set by the Central Bank.*
- *Turkish citizens are free to hold foreign currency and to travel abroad.*
- *Daily exchange rate adjustments.*
- *Elimination of some restrictions on foreign investors including repatriation of profits.*

Infrastructure development:
- *The massive Ataturk Dam project in southeastern Turkey and support for the development of nuclear power.*

- Unemployment probably exceeds 20 percent—there are no reliable figures—as growth in the labor force has outstripped gains in civilian employment.

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Ozal can place some of the blame for higher inflation on the lagged effect of loose monetary policies followed by the previous military government. Part of the higher inflation rate also reflects temporary factors—long-overdue price hikes for products produced by the State Economic Enterprises, and the introduction of a value-added tax (VAT) in January. Ozal, however, shares the blame because of his accommodating monetary policies. The money supply grew by 50 percent in 1984, and Ankara ran into trouble with the IMF last summer because it exceeded the Fund's monetary targets. In response to the IMF's threat to suspend credit, Ozal raised interest rates and promised to bring money growth back into line with newly agreed targets.

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Ozal's decision to cut income and corporate taxes, as well as the continued depreciation of the lira, have helped to increase the budget deficit, which reached $2.6 billion—6 percent of GDP—last year. Lagging revenues are a major problem—tax revenues equaled approximately 14 percent of GDP in 1984, one of the lowest rates in the OECD. The recently introduced VAT should help close the gap.

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Ozal's efforts have the general support of the international financial community, thus enabling Turkey to tap foreign credit markets. Earlier this year it obtained a $500 million loan from a consortium of Western banks. Ankara encountered some difficulty in putting the deal together mainly because of to its inexperience with the new type of loan facility being used.

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Outlook

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The outlook for 1985 is mixed. Export growth probably will slow to about 15 percent, but, with import growth of less than 10 percent, the trade

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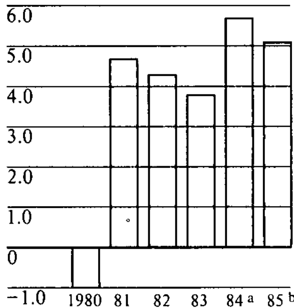
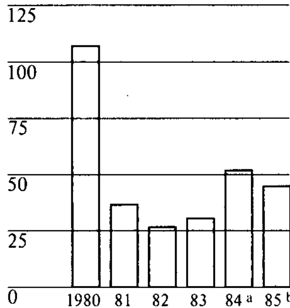
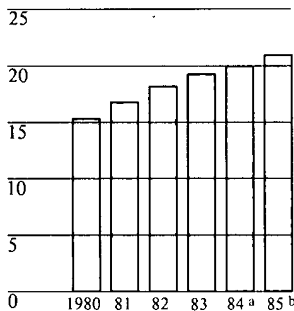
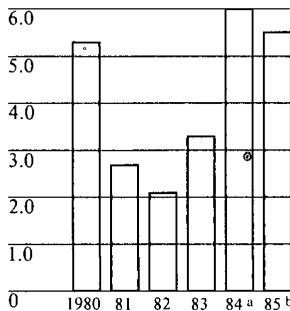
Turkey: Economic Indicators, 1980-85

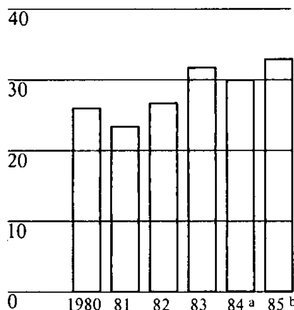
Percent











[a] Estimated.
[b] CIA projection.
[c] Debt as a share of current account earnings. Excludes military debt. The US Embassy estimated military debt owed to the United States at about $2.6 billion at the end of 1983.

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deficit will decline again. On the basis of this favorable trade performance, GDP growth should remain strong at about 5 percent, and we expect the current account deficit to narrow to about $1 billion. On the negative side, unemployment is likely to creep even higher because of strong growth in the labor pool, while the inflation rate probably will remain close to 50 percent for the full year. By early next year, however, inflation should begin to slow if Ozal delivers on his promise to reduce monetary growth and the budget deficit. 25X1

Ankara's grace period on rescheduled foreign debt essentially ended last year; principal repayments thus will jump sharply in 1985. Total service costs on medium- and long-term debt will exceed $3 billion this year, —about 30 percent of current account earnings—and will remain near that level for the remainder of the 1980s. As a result, Turkey will continue to depend on Western aid as well as on new borrowing in private financial markets. 25X1 25X1

Ozal's political future is inextricably linked with Turkey's economic performance. The Prime Minister is already under strong attack for his failure to control inflation, reduce unemployment, and relieve the financial stresses of many private business firms. The two corruption scandals that rocked his government within a three-month period this past winter heightened dissatisfaction with Ozal, as did the rather chaotic implementation of the VAT in January. 25X1

Ozal's dilemma is that his program is aimed at the long run, although he needs short-term results to avoid jeopardizing his government and even the democratic process in Turkey. Although we believe he is in no immediate danger, the mixed economic outlook for 1985 means that Ozal's political problems will not abate in the near future and that he will need all his tactical skills to fend off critics and keep his program on track. Should Ozal be forced from the scene, Turkey would lose its most influential champion of badly needed economic reforms, and successor regimes would almost certainly lack Ozal's commitment to long-term economic restructuring. 25X1

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Thailand: New Push for Export Reform [1]

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The Prem government has made an impressive start in implementing measures to ease the country's foreign payments strains and boost Thai export competitiveness. Bangkok over the past seven months has sharply devalued the currency, adopted a variety of measures to promote exports, and drawn up plans for even more extensive tax and financial reforms. Domestic opposition to the politically sensitive reform effort may delay some aspects of the program. Nonetheless, we expect sufficient progress to ensure at least moderate growth in exports through the end of Prem's term in 1987.

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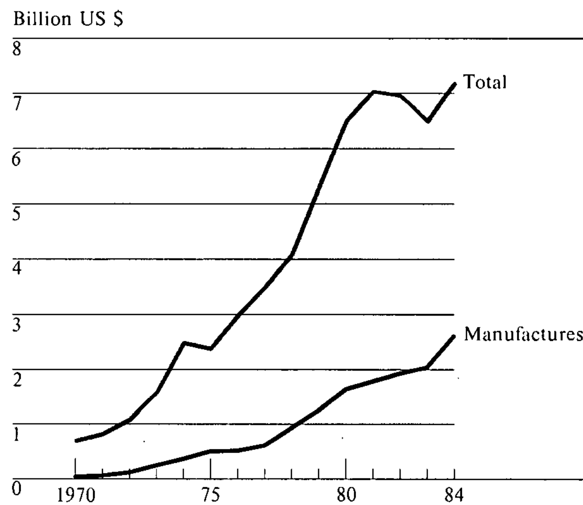
Lagging Export Performance

Thailand's once vigorous export growth slowed to an annual rate of about 5 percent during 1980-83—compared with a 25-percent annual rise in the 1970s. Major factors in the decline were depressed world prices for the country's commodity exports, an overvalued currency, and domestic economic inefficiencies such as a tariff structure that discouraged exports. Manufactured exports, which had soared from about $40 million in 1970 to more than $1.5 billion in 1980, also slowed substantially in this period.

The slowdown in export earnings aggravated the country's growing financial strains and contributed to a sharp rise in the debt service ratio from 10 percent in 1980 to 22 percent last year. Moreover, the poor export performance combined with a credit-driven import boom to produce a record 1983 current account deficit of $3 billion—which improved only moderately in 1984. Bangkok's initial efforts to improve its external finances slowed economic growth as a tight money policy in late

Thailand: Growth of Export Earnings, 1970-84



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1983 generated a wave of small business bankruptcies and a liquidity crisis in the financial sector.

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The New Export Strategy

Last fall, the Prem government responded to the country's growing financial difficulties by quickly launching a program of economic reforms to reduce the trade deficit and boost Thai export competitiveness—especially for manufactures. In November the government devalued the baht by about 15 percent against the US dollar and floated it against a basket of trading partner currencies. To prevent

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Status of Economic Reforms

Reform	Objective	Status/Prospects	Comments
Currency reform	Develop an exchange rate system that closely reflects resource costs of imports and exports.		
Devaluation Managed float		Currency devalued from 23 to 27 baht per US dollar in November. Now pegged to market basket of trading partner currencies, with US dollar influence substantially reduced. Baht continued to depreciate in March.	Ability of Bank of Thailand to adjust currency value frequently to reflect economic changes key to future export competitiveness.
Rationalization of domestic export/import price structure	Reduce level of import protection to industry, promote domestic efficiency, increase international competitiveness of export sector.		
Reduction or removal of protective tariffs on finished goods; increase on intermediate goods		Overall level of effective protection lowered to approximately 40 percent in 1982. Some tariffs and quotas eliminated.	Could be reversed if trade deficit does not improve.
Reduction or elimination of subsidies to exporters		Eliminated for textile exports to the United States under agreement with US Department of Commerce. Cuts in subsidies to other exporters uncertain.	Reduction or elimination of other subsidies is likely to provoke opposition from manufacturers and exporters.
Financial system reform	Increase domestic savings, channel into export-oriented investment, reduce need for foreign borrowing.		
Reduction in size of informal financial sector		Royal decree bans "chit funds" as of November 1985. Funds gradually deflating in early April.	Involvement of senior military officers makes issue highly sensitive.
Tighter regulation of nonbank finance companies		Government's "lifeboat scheme" has bailed out ailing companies with additional funds and closer regulation.	Many are still weak and a liquidity crunch could cause additional failures.
Increased equity financing for investments	Decrease dominant role of bank financing of new firms.	Securities Act amended last fall to permit listed companies to make public offerings of shares and debentures.	Higher returns available from informal financial sector will retard equity formation.
Liberalization of interest rates		Interest rates increased last year for some types of deposits. Lending rates raised for non-promoted projects.	Private banks still reluctant to change interest rates to reflect credit conditions without pressure from Bank of Thailand.
Export promotion measures	Reduce trade deficit, create jobs, boost labor- and resource-intensive exports, reduce foreign borrowing.		
Foreign investment incentives		On paper Bangkok offers a competitive package of incentives and has over the past two years begun sending missions abroad to recruit foreign investment.	Redtape, bureaucratic delays, fear of Indochina conflict remain barriers.

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(continued)

Reform	Objective	Status/Prospects	Comments
Export incentives		Incentives include export credits, tax holidays, and promotional measures. A national export plan incorporating production, marketing, and financial incentives is under discussion.	Attempt in 1980-81 to set up Japanese-style marketing cartels (sogo soshas) failed. Little progress so far in setting up export processing zones.
Fiscal reform	Reduce government budget deficit and need for foreign borrowing to finance current consumption rather than longer term investment.		
Budget austerity		Budget cuts of 5 to 10 percent for FY 1985 have been implemented and other measures approved to curtail government spending. Wage freezes for many government employees are likely over the next two years. "Zero Growth" budget may be proposed for fiscal 1986.	Military is pressing for additional funds. Labor groups are likely to add to pressure against austerity measures.
Restructuring of tax system		Indirect taxes increased, personal income taxes for lower tax brackets reduced. Major tax increases under consideration.	Despite reform, Thailand is expected to face a $1.8 billion revenue shortfall in FY 1985. Cabinet in early April approved part of Sommai's tax increase package.
Rationalization of state enterprise sector	Make public sector a net contributor to national savings. Reduce public-sector foreign borrowing.		
Privatization of unprofitable state enterprises		Government still debating which firms will be sold off. Has stated that it will continue to run those enterprises that are considered vital to the country, even if they are operating at a loss.	Employees of enterprises certain to oppose these measures. Workers of Communications Authority of Thailand struck for two days in February to protest planned privatization, other strikes possible. Opposition from military also is likely because senior officers often supplement incomes with directorships of state enterprises.
Increased fees for public utilities and services		Busfare increased by a third in February. Fees for other services and utilities probably will also be increased.	Issue has been politically sensitive in the past, but public reaction to current increases has been minimal so far.
Administrative reform	Streamline and improve economic planning and resource mobilization.		
Centralization of economic decision making		Minister of Finance Sommai, trusted by Prem, is now most influential economic policy maker. Council of Economic Ministers is gaining influence.	Not formalized, although technocrats are gaining power. Too early to assess role to be played by government's new economic think tank, Thailand Development Research Institute.
Reduction of redtape, corruption		Foreign investment, export procedures being streamlined. The Board of Investment's One-Stop Investment Center has made small but definite improvement,	Conflicting signals to investors are likely to continue as long as various ministries and agencies retain a large degree of autonomy.

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sharp increases in the government's budget deficit from undermining the devaluation, the Cabinet late last year approved deep budget cuts and postponed "nonessential" development projects. It also reduced the 1985 ceiling on government-guaranteed loans by 30 percent to $1.6 billion. Further budget cuts and tax increases have been introduced in the current National Assembly session.

We believe that the Prem government is also committed to accelerating the implementation of longer term reforms—including tariff reform and trade and financial liberalization—begun in 1982 under the auspices of a $350 million loan agreement with the World Bank. Bangkok is counting on the private sector to respond to the heightened export incentives. These measures should lead to a more dynamic domestic economy and make Thai exporters more competitive.

The Obstacles Ahead

The government will have to tread carefully if it hopes to achieve most of these reforms during the remainder of Prem's term. Influential elements in the military and the opposition Thai Nation Party (TNP) have vested interests in the current economic structure, which favors production of manufactures for a protected domestic market rather than for the highly competitive export market. Both groups have in the past successfully manipulated public discontent over economic policy to force the government to back down on reform.

We believe the most vulnerable area of the government's export strategy in the near term is its economic austerity policy. The TNP is especially critical of Finance Minister Sommai for the devaluation-induced rise in inflation and for the recent tax hike. Influential military officers, occasionally in concert with the TNP, have criticized plans for budget austerity and complained bitterly about limits on foreign borrowing that restrict military purchases abroad. In addition, plans to sell some state enterprises to the private sector or cut subsidies to some of them are drawing opposition from public-sector unions—the country's largest—and senior military officers who frequently sit on the boards of directors.

What If Economic Reform Stalls?

Much of our optimism about Thailand's export prospects is based on Prem's public and private support for the necessary economic reforms. We know of no other figure capable of generating the broad, long-term support the export campaign needs. Prem is likely to remain in office through the end of his term, but, if for some reason he leaves office or loses his parliamentary majority, the outlook for economic reform becomes more doubtful. If the TNP becomes part of the governing coalition—and especially if it should gain the prime-ministership, we believe the export drive will stall because of the party's strong links to domestic manufacturing interests. We believe export prospects would also dim if a military-dominated government headed by Army Commander in Chief General Arthit—frequently mentioned as a likely successor to Prem—comes to power. Arthit has demonstrated little understanding of economic affairs and has been a vocal critic of the government's austerity measures. We believe that a TNP government or one headed by Arthit probably would pursue economic policies that would lead to stagnant export earnings and accelerated foreign borrowing even in a favorable global economic environment.

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Prospects for Reform

Although much of the rhetoric about economic reform is old hat in Bangkok, we are moderately optimistic about the outcome of this program. The influence of well-trained Thai technocrats on economic policy—steadily growing for a decade—has accelerated under Prem, as has the centralization of economic policy making. In addition, the Prime Minister has shown increased willingness to implement difficult economic decisions, including doubling domestic energy prices in 1981-82, sharply devaluing the currency last fall, and sanctioning large tax hikes. Both Prem and the technocrats, moreover, seem determined to avoid a debt crisis such as that in the neighboring Philippines. In our

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view, Prem—in his strongest political position since taking office in 1980—has a good chance over the next two years of accomplishing substantial reform and thereby improving export performance.

Outlook for Export Earnings

The continuing world economic recovery combined with the devaluation probably will ensure at least modest expansion of export earnings in 1985, even if the reform package is only partially implemented by yearend. Most of Thailand's commodities exports should increase in volume. Moreover, exports of manufactures and processed food products, which soared late last year, probably will experience another year of at least modest growth. As a result, we expect the current account deficit to decrease by $500 million this year to about $1.8 billion.

If the reforms are fully implemented, we believe Thai exports probably will accelerate even more strongly over the next few years. Barring an economic slowdown in the industrial countries, we expect Bangkok's export earnings to increase by 10 to 15 percent annually through 1990. Although still below the rate of the 1970s, this would be high enough to ease Thailand's recent foreign payments strains and allow it to continue making payments on its $16 billion foreign debt. Even in a world of slow economic growth and rising protectionism, we believe Thailand's market-oriented openness, enhanced by the current reforms, will result in a relatively strong performance compared with other developing countries.

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Briefs

Energy

OPEC April Oil Production

OPEC crude oil output in April averaged 17.1 million b/d, over 1 million b/d above the group's October 1984 production ceiling. Despite a drop of 400,000 b/d in Saudi production—due primarily to a late month falloff in liftings by the four former Aramco partners—the decrease was more than offset by a jump in Iranian output of approximately 500,000 b/d. The oil shuttle between Khark and Sirri Islands is apparently over its initial difficulties, and direct exports from Khark Island continued at a high level. The 11 other OPEC members were also at or above their quotas. 25X1

OPEC: Crude Oil Production *Million b/d*

	October 1984	1984	1985		
			First Quarter	March	April
Total	**16.00**	**17.7**	**16.5**	**17.0**	**17.1**
Algeria	0.66	0.7	0.7	0.7	0.7
Ecuador	0.18	0.3	0.3	0.3	0.3
Gabon	0.14	0.2	0.2	0.2	0.2
Indonesia	1.19	1.4	1.3	1.2	1.3
Iran	2.30	2.4	2.2	2.5	3.0
Iraq	1.20	1.2	1.2	1.3	1.3
Kuwait	0.90	0.9	0.9	0.9	0.9
Libya	0.99	1.1	1.0	1.0	1.0
Neutral Zone	[a]	0.5	0.5	0.5	0.5
Nigeria	1.30	1.4	1.6	1.7	1.7
Qatar	0.28	0.4	0.3	0.3	0.3
Saudi Arabia	4.35	4.4	3.6	3.8	3.4
UAE	0.95	1.2	1.2	1.2	1.2
Venezuela	1.56	1.7	1.6	1.6	1.6

[a] Neutral Zone has no production quota; output is divided evenly between Saudi Arabia and Kuwait and included in their quotas.

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Nigeria Expanding Countertrade in Oil

Nigeria has doubled its September 1984 countertrade deal with Brazil to 95,000 b/d of crude in return for $950 million of essential goods. Under the 12-month arrangement, Brazil will deposit oil payments into an escrow account that then will be drawn down as Nigeria imports Brazilian products. Similar deals with France, Italy, and Austria are in the final stages of negotiation, totaling about 115,000 b/d in exchange for $1.2 billion in goods. Nigeria also is exploring countertrade agreements with firms in Canada, West Germany, and the United States to supplement its austere import budget. According to press reports, Nigeria does not consider countertrade oil as part of its OPEC quota, which it has exceeded by about 300,000 b/d since last November. [ ]

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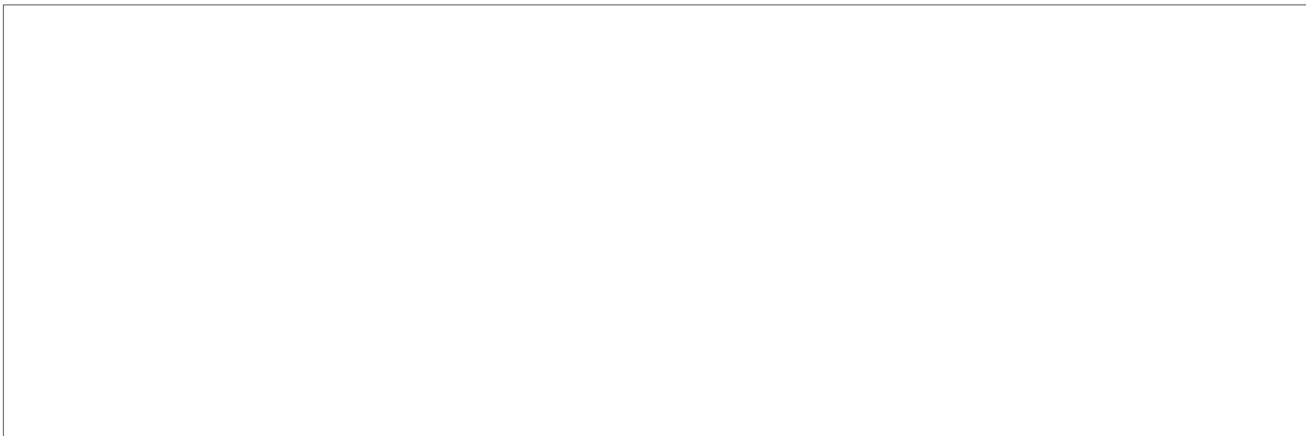

International Finance

Argentine Financial Crisis Simmers

The Central Bank, in an effort to stem withdrawals triggered by a recent bank failure, last weekend announced a 120-day freeze on dollars held in local banks. Some foreign creditors are increasingly concerned about Argentine economic management and say they will withhold participation in Argentina's pending $4.2 billion new loan package until the failed bank's foreign debts are honored, [ ] Although Buenos Aires may have averted a domestic banking crisis, Buenos Aires will need to complete an accord with the IMF and convince some remaining banks to participate in the lending package before US bank regulators meet on 10 June to classify Argentine loans. Without foreign credit, Argentina will soon face foreign exchange difficulties that could force a complete suspension in interest payments. [ ]

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Peru's Debt Stalemate

Finance Minister Garrido-Lecca probably will tout his economic adjustments when he meets with US officials on 20 through 22 May, but patchwork policies are intensifying financial problems for the next government. [ ] [ ] bankers continue to hold trade credit for Peru to a minimum, despite indications that Lima is making partial payment of interest

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probably to avoid a downgrading of its loans. The government is devaluing the currency and hiking gasoline and some staple prices, according to the US Embassy, but is still resisting an IMF agreement. It still owes $350 million in past due payments, which probably will prevent progress in rescheduling debt with commercial bankers. Inflation in April rose to a record annual rate of 143 percent. This will only strengthen popular resistance to tougher adjustments and leave the incoming administration with little financial maneuvering room.

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Colombia's Informal IMF Deal

Colombia's Bank Advisory Committee last month agreed in principle to informal IMF monitoring of the economy as a condition for new bank loans, Under this scheme, the government would provide both the IMF and the World Bank detailed quarterly reports on economic adjustments until the change of government in August 1986. Fund and Bank representatives also will visit every six months to monitor and approve performance targets. the principal commercial banks have tentatively agreed to provide a $1 billion loan over two years: $700 million as a "replacement" of public-sector debt amortization, $200 million in new money, and $100 million for recapitalization of the Colombian banking sector. Most of the new money will go to Ecopetrol and Carbocol, the state oil and coal enterprises. Quarterly disbursements will begin this year after the IMF reports on first-quarter economic performance. In addition, the Bank will lend $300 million during 1985 and 1986 to finance imports needed to produce nontraditional export goods,

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The IMF board probably will consider this month a staff recommendation that commercial bank credits be reopened without a formal Fund arrangement, and will approve the monitoring plan. Nonetheless, the IMF and bank creditors will insist that Bogota implement tough adjustment measures to reduce inflation to 22 percent and cut the public-sector deficit from 8 percent of GDP to 5 percent in 1985, By emphasizing its independence, Bogota hopes to minimize domestic political reaction to this arrangement and still gain access to major amounts of foreign capital. Planned austerity measures already have evoked protests from business groups, labor, the left, and liberal politicians. If opposition grows substantially, we doubt that President Betancur will push austerity sufficiently to fulfill these conditions.

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Venezuela Gets Debt Terms Agreement

Venezuela and its bank advisory committee recently agreed on terms for restructuring $21 billion of public-sector debt, but final signing—planned for early fall—may be delayed if private-sector interest payments are not current. The agreement calls for 12-year repayment at 1.125 percentage points over LIBOR, no grace period, and a $750 million Venezuelan payment upon signing. The committee also gave Caracas the go-ahead for June talks with the 450 creditor banks in Japan, Europe, and the United States necessary to finalize the accord. The US Embassy reports, however, that some bankers may

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insist that private-sector interest arrearages be paid before the signing. We believe this agreement will reduce domestic criticism of President Lusinchi's inability to finalize last September's agreement in principle. With rescheduling behind him, Lusinchi will be better able to defend his economic adjustment program and lay the groundwork for recovery. 25X1

Moroccan-Libyan Financial Dealings

Libyan leader Qadhafi recently extended Morocco a $100 million concessional loan to help finance crude oil imports from Libya, according to the US Embassy in Rabat. Although final details are still pending, the funds will be the first since September, raising to $250 million the level of Libyan financial assistance over the past year and a half. The new loan will finance imports of about 10,000 b/d of Libyan crude oil this year—10 percent of Morocco's needs. Some of the oil, however, may be refined for reexport to Libya or sold on Libyan account. Qadhafi may attempt to use these loans or promises of low-cost oil to extract political concessions from financially strapped King Hassan. Nevertheless, the new money underscores the progress of the Moroccan-Libyan union and helps support the popular belief in Morocco that large amounts of Libyan aid will be forthcoming. 25X1

Philippine Financial Rescue Package

Manila's long-stalled financial rescue agreement with nearly 500 private banks was finally signed this week in New York. The agreement includes a nine-year, $925 million loan, rollover of $3 billion in short-term trade credits, and restructuring of $5.7 billion in principal repayments falling due between 1983 and 1985. Each rescheduled loan must be negotiated individually within the terms and options of the agreement—a process we expect to take six to 12 months. The first $400 million in disbursements, set for early July, are contingent on Manila's compliance—which we expect—with the IMF's financial performance targets for the end of May. This financial relief comes at a crucial time for the stagnating Philippine economy. In the first quarter of this year, export earnings fell 9 percent short of last year's already depressed levels and about 20 percent short of the IMF's target. 25X1

Vietnamese Debt Rescheduling

A private Japanese banking syndicate has agreed to reschedule a $160 million loan owed by cash-strapped Vietnam, according to press reports. Vietnam has been in de facto default on its $1.5 billion hard currency debt since 1982. Japanese bankers believe Hanoi will now attempt to begin negotiations on rescheduling with other non-Communist creditors. Private bankers and Western governments, however, are unlikely to act before Hanoi settles its $30 million arrears with the IMF. A payment to the Fund in the next few months would probably indicate that the Vietnamese Government is trying to put its finances in order so that it can better attract Western investment. 25X1

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Global and Regional Developments

Canada Relaxes Beef Quotas Against the EC

Ottawa has agreed informally to raise its import quota for EC beef, effectively ending a dispute that began last December. At that time quotas were implemented to protect Canadian producers from growing imports of subsidized EC beef. The EC claimed the export surge was temporary, as EC farmers culled dairy herds to meet the lower milk quotas in the latest CAP reform. Ottawa, however, feared a longer term problem stemming from EC dairy policies. In March 1985, the EC threatened to retaliate with tariffs on a range of Canadian food products, worth $39 million. The new arrangement calls for Ottawa to increase the Community's beef allotment from 2,700 to 10,668 metric tons; in return, the EC will not raise duties on Canadian goods. A formal agreement will be completed shortly but probably will not help improve the generally poor bilateral economic relationship. In fact, a new dispute may soon erupt over Canadian claims that EC countries are overfishing near the Georges Bank.

25X1

Maghreb Concerns About EC Trade

The upcoming accession of Spain and Portugal to the EC is heightening fears among North African states of stricter trade barriers. Several countries have petitioned the Community to maintain preferential access for their raw material and agricultural exports—about 60 percent of the region's trade is with the EC. Morocco even requested full membership status in the EC earlier this spring and Libya—the only North African state without a cooperation agreement—recently expressed interest in establishing formal ties. Agricultural exports are at greatest risk, but limited excess capacity in Spain and Portugal and their 10-year integration into the Community will soften the impact on sales of North African citrus and vegetables. More problematic is the negotiation of new agricutural levy rates and transit rights that will be pegged to Spanish and Portuguese exports to the EC.

25X1

British-Bulgarian Joint Venture

A British and a Bulgarian firm last month formed a joint company to manufacture biotechnology products, including pharmaceuticals and hygienic equipment in Bulgaria. The British, who will supply technology and engineering, hope the deal will give them access to CEMA markets, as well as Third World countries such as Syria and Libya. The Thatcher government, which sent two high-level delegations to Sofia within the past year as part of a broader initiative to improve relations with Eastern Europe, welcomes the deal. Bulgaria hopes to acquire biotechnology to upgrade its pharmaceutical industry and agriculture, as well as increase exports.

25X1

Libyan–Sub-Saharan Ties Improve

Qadhafi's recent tour of East Africa and provisions of aid underscore the regime's attempt to buy influence and preempt Israeli efforts to reestablish ties in the area. Burundi received about $53 million in financial assistance during Qadhafi's recent visit, Tripoli also started delivery of promised food and medical supplies to Sudan during the

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Libyan leader's stay in Khartoum, and the US Embassy reports that a 1,000-truck Libyan aid convoy is en route to western Sudan. Such assistance helps Qadhafi repair his poor image as a reliable aid donor and raises the expectations of other economically strapped Third World countries, such as Somalia, which have been the target of Libyan attempts to expand relations. Moreover, it may make these governments less willing to resist Libyan demands on regional political issues. 25X1

Continuing Andean Pact Disunity

Prospects for revising Andean Pact Decision 24, the code covering foreign investment in the five Pact nations, remain uncertain. Although Ecuador and Colombia wish to modify the code—which they see as outdated—Peru, Venezuela, and Bolivia seem unwilling or unable to consider new initiatives. Although some cooperation among the members to attract foreign capital continues—a special exposition will be held on 28-30 May in Cartegena, Colombia, to showcase 54 new investment projects—the Pact has not placed the revision on the agenda of any upcoming ministerial meetings. Lacking a consensus, the Andean nations will continue to take separate actions to attract foreign investment. 25X1

National Developments

Developed Countries

25X1

Japanese Engine Ceramics Delayed

Mitsubishi has delayed commercialization of ceramic turbochargers—a major phase in the development of engine ceramics—until 1986, 25X1 claiming that rust particles in engine exhaust are shattering the ceramic rotors. In fact, Mitsubishi may have other technical problems—manufacturing technology remains at a stage where most ceramic rotors have undesirably large defects, which probably have contributed to the breakage problem. Given the nature of the troubles and the lack of expedient fixes, we anticipate further delays both in Mitsubishi's development of ceramic turbochargers—although the firm retains a good chance of being first to commercialize them—and in the Japanese ceramic engine programs. 25X1

Israel Adopts New Economic Measures

The Israeli Cabinet last Sunday proposed 20 measures to reduce the government's budget deficit and halt foreign exchange losses. The more significant measures included a doubling of the foreign travel tax, a hike in the value-added tax, income tax credits for employees and employers in the manufacturing sector, and a ban within three years on deficit financing by the Bank of Israel. They also included a partial freeze on public-sector wages, employment, and contracts. The government is hoping to right the economy without a major devaluation or an increase in unemployment, but it is likely to find that the quick fixes included in the new program will not be sufficient. 25X1

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Less Developed Countries

Mexican Economic Performance Weakens

Mexico's economic performance continues to deteriorate, [redacted] In the first quarter the trade surplus dropped 40 percent to $2.4 billion compared with the same period last year. The weak world oil market and the increasingly overvalued peso cut export earnings, while the surge in economic activity boosted imports. Meanwhile, we estimate capital flight more than tripled to $2 billion, reflecting increasing concern among private investors over de la Madrid's economic policy, the possibility of a devaluation, and prospects for midterm-elections violence. Preelection spending is keeping inflation and the public-sector deficit well above target. Based on the January-April period, we project inflation to remain at an annual rate of about 60 percent, well above the government's original projection of 35 percent. The Embassy reports conflicts between senior economic advisers are intensifying as Finance Minister Silva-Herzog pushes for tighter controls and Budget Director Salines de Gortari espouses expansionary policies. If Mexico City does not take quick action after the election to cool the economy, serious external financial problems will emerge before yearend. 25X1

25X1

Brazilian Iron Ore Exports

The recent startup of the Carajas mining project will increase Brazil's iron ore exports in 1985 and significantly boost its foreign exchange position during the next few years. The US Embassy reports that the first shipment—to Japan—took place in May. When the $4.9 billion complex is completed in 1987, the state mining company expects its annual production to reach 35 million metric tons. This will represent an increase of one-third over present iron ore exports. Most of the Carajas production is already earmarked for export under long-term contracts enabling Brazil, already the world's leading exporter of iron ore, to add $700 million to its foreign exchange earnings. The Carajas mines also contain major reserves of bauxite, copper, zinc, and manganese that will lessen dependence on imports and may provide future export opportunities.

25X1

25X1

Improving Government-Private-Sector Relations in El Salvador

Leaders of El Salvador's largest business group have told US Embassy officials they are encouraged by recent government pronouncements to help the private sector, particularly the coffeegrowers, who have been among the most vocal critics of the government. President Duarte recently announced new policies to aid the coffee industry, including a 5-percent increase in the guaranteed price to producers and increased availability of credit. Duarte's willingness to address business concerns probably reflects growing pressures to reinvigorate the economy, rather than a softening of his long-held suspicion of the private sector.

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Bolivia's Tin Production Declines Sharply

Tin production in Bolivia fell 25 percent last year to roughly 18,000 metric tons. Moreover, we expect little improvement in Bolivian tin output over the next few years as problems such as poor management, inadequate operating funds, declining ore grades, and faulty equipment go largely unaddressed. Bolivia's earnings prospects are further jeopardized by weak tin prices, which through April are averaging 10 percent below last year's level. Because tin accounts for one-fourth to one-third of Bolivia's exports, these trends will severely complicate La Paz's debt difficulties. [redacted] 25X1

Algerian Socialism Reviewed

Algeria's Central Committee has urged a reexamination of the national charter, the ideological basis for the government and the economy. Specifically, the committee recommended a review of socialist management of state enterprises and emphasized the need for increased private-sector participation in the economy. These departures from tradition underscore President Bendjedid's liberalization efforts over the past five years and the growing belief among many government officials that Algeria's brand of socialism is hindering economic progress. While Bendjedid's call for a possible national referendum on the committee's recommendations sets the stage for a national consensus on reform, it also puts hardline opponents on alert. Pent-up social and economic tensions likely will force the regime to move cautiously to avoid open unrest.

[redacted] 25X1

Libyan Rationing Progressing

Libyan plans to implement rationing of almost all goods, services, and housing are moving apace, [redacted] The regime has announced a deadline of 30 June for owners of more than one dwelling to relinquish their surplus property to the state without compensation. Housing needs for each family also are being assessed by special committees, and excess space and luxury items will be taxed. Ration booklets for foodstuffs and consumer goods have been widely distributed for some time, but so far ration tickets have only been necessary for consumer items such as automobiles and refrigerators. These measures are ostensibly part of Qadhafi's long-term plans to revolutionize Libyan society, but are more likely the result of sharply lower oil revenues. Disgruntlement over declining living standards has increased sharply over the past year, but has yet to threaten the regime. [redacted] 25X1 25X1

Singapore Economy Slows Dramatically

Economic growth dropped to 3 percent at an annual rate during the first three months of this year, compared with 10-percent growth registered for the same period in 1984. Manufacturing output actually declined, according to press reports, with the important petroleum refining industry continuing to operate well below capacity. A surplus of office and hotel space has halted growth in construction. With some 4,000 workers losing their jobs during the quarter—nearly equal to the 1984 total—pressure is mounting for government action. Businessmen have asked for tax breaks, but as yet these have not been forthcoming. Some parliamentarians have called for increased benefits for the

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poor—fewer than 1 percent receive public assistance—but high-ranking ministers maintain that generous welfare benefits would do more harm than good. 25X1

Questionable Gains in Indonesian Agricultural Output

Indonesia may become a net rice importer next year despite published figures that indicate the country has achieved self-sufficiency in rice output over the past 10 years. 25X1 an Indonesian study has determined that the 1984 rice crop on Java, which accounts for about two-thirds of national output, barely exceeded the previous year's harvest and will not offset increased consumption. In addition, much of the rice stock held by the government reportedly is unfit for human consumption. The Minister of Agriculture has not yet informed President Soeharto of the alleged falsification of production and stock figures, but he is concerned that local shortages will appear before September, when Soeharto is scheduled to deliver a speech in Rome on the success of Indonesian agriculture. 25X1

Communist

Romanian and Bulgarian Grain Crops in Trouble

Prolonged bad weather has reduced prospects for the grain crops in Romania and Bulgaria. 25X1 many winter grains, weakened by drought last fall, barely survived the severe winter. The major growing regions near the Black Sea were especially hard hit and crops were being plowed under, according to the US Embassies in Bucharest and Sofia. Drought this spring has delayed recovery of winter grains and now threatens the recently planted corn crop. This could be the third successive below-average grain harvest for Romania, which would further strain the nation's already poor food supplies. In addition, hard currency shortages continue to oblige Bucharest to restrict food imports and to push grain exports. Altogether, these problems could increase the potential for unrest. In Bulgaria, food supplies are better, but a below-average harvest would reduce the exportable surplus—an important hard currency earner. 25X1

New Chinese Tax on Foreign Businesses

China has announced approval of a new tax on fees and commissions received by permanent representative offices of foreign firms located in China. Beginning this year, income from such services as consultations, market surveys, and liaison for foreign firms would be subject to a minimum 20-percent tax. Income from services conducted for Chinese enterprises or strictly for the parent firm will be exempt, and offices in special economic zones will be taxed at a reduced rate. Foreign press reports have interpreted the new tax as a sudden move designed to bolster China's foreign exchange reserves, adding to the already high cost of doing business in China. Because the tax is unlikely to yield significant revenues, it is more likely part of an ongoing effort to bring China's commercial law in line with international practices. In fact, those firms subject to the new tax will receive a reduction in the existing commercial tax rates, which will offset some of the increase in Beijing's revenues. 25X1

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Directorate of
Intelligence

Economic & Energy Indicators

24 May 1985

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24 May 1985

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Industrial Production

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984		1985			
				Annual	Dec	Jan	Feb	Mar	Apr
United States	2.6	−8.1	6.4	10.7	0	2.2	1.5	3.7	−2.9
Japan	1.0	0.4	3.5	11.1	−7.7	−2.0	9.4	−21.4	
West Germany	−2.3	−3.2	0.3	3.3	−13.5	−1.2	0		
France	−2.6	−1.5	1.1	2.6	−24.1	−17.1	74.0		
United Kingdom	−3.9	2.1	3.9	0.9	8.5	20.2	−2.3		
Italy	−1.6	−3.1	−3.2	3.1	6.5	−37.9	158.1		
Canada	0.5	−10.0	5.7	8.7	6.0	−9.5	−4.1		

Gross National Product [a]

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984				1985
				Annual	2d Qtr	3d Qtr	4th Qtr	1st Qtr
United States	2.5	−2.1	3.7	6.8	7.1	1.6	4.2	1.4
Japan	4.1	3.4	3.1	5.7	7.6	2.6	9.6	
West Germany	−0.2	−1.0	1.3	2.6	−7.4	9.8	5.8	
France	0.2	2.0	0.7	1.6	−1.7	4.7	−0.2	
United Kingdom	−0.9	1.5	3.4	1.6	−5.6	−1.4	13.2	
Italy	0.2	−0.5	−0.4	2.6	2.7	4.4	−2.3	
Canada	3.3	−4.4	3.3	4.7	3.2	6.6	2.3	

[a] Constant market prices.

Consumer Prices

Percent change from previous period seasonally adjusted at an annual rate

	1981	1982	1983	1984	1985				
					1st Qtr	Jan	Feb	Mar	Apr
United States	10.3	6.2	3.2	4.3	3.3	2.3	4.2	5.8	
Japan	4.9	2.6	1.8	2.3	2.3	4.9	−4.3	−0.1	
West Germany	6.0	5.3	3.6	2.4	3.8	4.3	5.3	5.8	2.4
France	13.3	12.0	9.5	7.7	5.7	5.3	5.9	6.6	5.6
United Kingdom	11.9	8.6	4.6	5.0	7.0	7.4	8.9	14.0	
Italy	19.3	16.4	14.9	10.6	10.2	10.0	10.7	10.9	12.7
Canada	12.5	10.8	5.8	4.3	5.5	6.0	5.3	1.9	

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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				
					1st Qtr	Jan	Feb	Mar	Apr
United States [b]	7.1	6.6	11.2	6.9	10.9	9.4	15.3	5.8	6.3
Japan	3.7	7.1	3.0	2.9	11.5	−8.1	11.0	64.8	
West Germany	1.1	3.6	10.3	3.3	1.4	−20.8	−3.7	13.2	
France	12.2	13.9	10.0	7.5					
United Kingdom	NA	NA	13.0	14.6	0.7	−22.6	−2.4	27.8	46.1
Italy	11.2	11.6	15.3			−11.0			
Canada	3.8	0.6	10.2	2.3	−4.6	−33.1	−29.2	16.8	−3.2

[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				
					1st Qtr	Jan	Feb	Mar	Apr
United States	7.5	9.6	9.5	7.4	7.2	7.3	7.2	7.2	7.2
Japan	2.2	2.4	2.7	2.7	2.5	2.4	2.6	2.6	
West Germany	5.6	7.7	9.2	9.1	10.4	10.6	10.5	10.0	9.3
France	7.6	8.6	8.5	9.6	9.9	9.9	9.9	10.0	10.2
United Kingdom	10.0	11.6	12.4	12.6	13.0	12.9	13.0	13.0	13.1
Italy	8.4	9.1	9.9	10.4					
Canada	7.5	11.1	11.8	11.3	11.1	11.2	11.0	11.2	10.9

[a] Unemployment rates for France are estimated.

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Foreign Trade [a]

Billion US $, f.o.b.

	1981	1982	1983	1984	1985			
					1st Qtr	Jan	Feb	Mar
United States [b]								
Exports	233.5	212.3	200.7	217.6	55.7	19.4	17.9	18.4
Imports	261.0	244.0	258.2	325.6	84.4	28.3	28.0	28.1
Balance	–27.5	–31.6	–57.5	–107.9	–28.7	–8.9	–10.1	–9.7
Japan								
Exports	149.6	138.3	145.5	168.2	40.1	14.1	13.2	12.8
Imports	129.5	119.7	114.1	124.1	28.7	9.6	9.7	9.4
Balance	20.1	18.6	31.5	44.1	11.5	4.6	3.5	3.4
West Germany								
Exports	175.4	176.4	169.4	172.0	40.7	14.2	13.6	13.0
Imports [c]	163.4	155.3	152.9	153.1	36.3	12.9	11.9	11.5
Balance	11.9	21.1	16.6	18.8	4.5	1.4	1.7	1.5
France								
Exports	106.3	96.4	95.1	97.5	22.5	7.1	7.6	7.9
Imports	115.6	110.5	101.0	100.3	23.6	7.5	8.2	8.0
Balance	–9.3	–14.0	–5.9	–2.8	–1.1	–0.4	–0.6	–0.1
United Kingdom								
Exports	102.5	97.1	92.1	93.7	22.6	7.4	7.6	7.7
Imports	94.6	93.0	93.8	99.2	24.0	7.5	7.9	8.7
Balance	7.9	4.1	–1.8	–5.5	–1.4	–0.1	–0.3	–1.0
Italy								
Exports	75.4	74.0	72.8	73.6		5.7	6.1	
Imports	91.2	86.7	80.6	84.3		6.9	7.3	
Balance	–15.9	–12.8	–7.8	–10.7		–1.2	–1.1	
Canada								
Exports	70.5	68.5	73.7	86.8	21.9	7.3	7.1	7.5
Imports	64.4	54.1	59.3	70.8	17.9	6.2	5.8	5.9
Balance	6.1	14.4	14.4	16.1	4.0	1.0	1.3	1.6

[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			
					1st Qtr	Jan	Feb	Mar
United States	6.3	–9.2	–41.6	–101.7				
Japan	4.8	6.9	20.8	35.0	6.8	0.8	2.5	3.5
West Germany	–6.8	3.5	4.1	5.9	1.1	–0.3	0.7	0.8
France	–4.7	–12.1	–4.6	–0.5				
United Kingdom	15.3	9.6	3.7	0.1	0	0.4	0.1	–0.5
Italy	–8.6	–5.7	0.6					
Canada	–5.0	2.1	1.4	1.5				

[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		
				Annual	3d Qtr	4th Qtr	Jan	Feb	Mar
United States	9.2	1.5	1.0	1.4	–2.5	–3.5	–1.3	–5.2	8.0
Japan	5.5	–6.4	–2.4	0.2	–14.9	–4.7	–14.8	–8.2	–11.2
West Germany	–14.9	–2.8	–3.2	–7.1	–22.9	–12.9	–17.8	–33.9	4.1
France	–12.0	–5.5	–5.0	2.7	–21.4	–9.7			
United Kingdom	NA		–5.9	–4.8	–17.1	–16.3	–34.0	–11.2	68.6
Italy	–7.8								
Canada	3.9	–2.0	–1.2	–3.7	–5.2	–6.3	13.2	–18.1	14.2

Import Prices in US $

Percent change from previous period at an annual rate

	1981	1982	1983	1984			1985		
				Annual	3d Qtr	4th Qtr	Jan	Feb	Mar
United States	5.3	–2.0	–3.7	1.7		–2.6	–20.0	0.8	–9.9
Japan	3.6	–7.3	–5.0	–2.8	–5.2	–8.4	–28.9	4.9	19.2
West Germany	–8.6	–4.7	–5.2	–4.8	–22.5	–11.3	–11.4	–24.4	19.4
France	–7.8	–7.2	–7.0	–3.8	–22.9	–2.7			
United Kingdom	NA		–5.2	–4.0	–17.0	–13.0	–36.4	–0.6	57.5
Italy	1.0				–20.8				
Canada	8.7	–1.1	–3.4	0.2	4.9	–3.8	21.0	–41.4	–11.4

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Exchange Rate Trends

Percent change from previous period at an annual rate

	1981	1982	1983	1984	1985				
					1st Qtr	Jan	Feb	Mar	Apr
Trade-Weighted									
United States	10.5	10.6	5.8	9.1		34.3	40.0		
Japan	9.3	−5.7	10.4	6.2		3.1	−3.0		
West Germany	−2.1	7.0	5.8	1.0		−5.1	5.7		
France	−5.1	−6.1	−4.7	−2.1		4.2	−3.7		
United Kingdom	2.5	−2.1	−5.0	−2.5		−27.3	0.4		
Italy	−9.2	−5.1	−1.6	−3.1		9.4	−10.6		
Canada	0.3	0.2	2.3	−2.3		8.5	−13.4		
Dollar Cost of Foreign Currency									
Japan	2.7	−12.8	4.5		−19.6	−33.5	−32.5	9.6	25.5
West Germany	−24.6	−7.2	−5.2	−11.5	−28.0	−26.3	−58.7	−0.8	54.2
France	−28.7	−20.8	−15.9	−14.7	−26.7	−26.1	−54.7	−1.0	55.4
United Kingdom	−13.2	−13.4	−13.3	−11.9	−28.6	−28.9	−28.9	41.1	212.0
Italy	−32.8	−18.8	−12.3	−15.6	−30.3	−25.0	−66.8	−29.4	46.4
Canada	−2.5	−2.9	0.1	−5.1	−10.5	−1.8	−28.2	−31.5	14.7

Money Market Rates

Percent

	1981	1982	1983	1984	1985				
					1st Qtr	Jan	Feb	Mar	Apr
United States 90-day certificates of deposit, secondary market	16.24	12.49	9.23	10.56	8.76	8.30	8.84	9.13	8.61
Japan loans and discounts (2 months)	7.79	7.23	NA	6.66	6.55	6.56	6.55	6.54	NA
West Germany interbank loans (3 months)	12.19	8.82	5.78	5.96	6.12	5.84	6.17	6.35	5.98
France interbank money market (3 months)	15.47	14.68	12.51	11.74	10.64	10.47	10.70	10.76	10.58
United Kingdom sterling interbank loans (3 months)	13.85	12.24	10.12	9.91	12.98	11.74	13.56	13.63	12.67
Italy Milan interbank loans (3 months)	20.13	20.15	18.16	15.91	15.78	15.38	16.00	15.96	15.37
Canada finance paper (3 months)	18.46	14.48	9.53	11.30	10.59	9.83	10.59	11.35	NA
Eurodollars 3-month deposits	16.87	13.25	9.69	10.86	9.04	8.50	9.19	9.43	8.86

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Agricultural Prices

	1980	1981	1982	1983	1984	1985			
						1st Qtr	Feb	Mar	Apr
Beef (¢ per pound)									
Australia (Boneless beef, f.o.b., US Ports)	125.2	112.1	108.4	110.7	101.1	100.2	102.4	100.0	94.6
United States (Wholesale steer beef, midwest markets)	104.3	100.0	101.4	97.6	100.9	96.6	97.4	92.4	89.2
Cocoa (¢ per pound)	113.5	89.8	74.3	92.1	106.2	99.2	100	98.9	101.6
Coffee ($ per pound)	1.54	1.28	1.40	1.32	1.44	1.44	1.45	1.41	1.41
Corn (US #3 yellow, c.i.f. Rotterdam $ per metric ton)	150	150	123	148	150	133	133	133	136
Cotton (Memphis middling 1 1/16 inch, $ per pound)	0.8219	0.7243	0.6073	0.6873	0.6849	0.6062	0.5959	0.6154	0.6241
Palm Oil (United Kingdom 5% bulk, c.i.f., $ per metric ton)	583	571	445	502	730	605	595	651	653
Rice ($ per metric ton)									
US (No. 2, milled, 4% c.i.f. Rotterdam)	598	632	481	514	514	496	496	496	496
Thai SWR (100% grade B c.i.f. Rotterdam)	522	573	362	339	310	254	256	250	241
Soybeans (US #2 yellow, c.i.f. Rotterdam $ per metric ton)	296	288	244	282	283	240	238	240	293
Soybean Oil (Dutch, f.o.b. ex-mil. $ per metric ton)	598	507	447	527	727	651	664	667	693
Soybean Meal (US, c.i.f. Rotterdam $ per metric ton)	257	252	219	238	197	157	152	152	155
Sugar (World raw cane, f.o.b. Caribbean Ports, spot prices ¢/lb.)	29.03	16.93	8.42	8.49	5.18	3.69	3.65	3.78	3.37
Tea Average Auction (London) (US ¢ per pound)	101.4	91.0	89.9	105.2	156.6	126.9	127.3	110.4	98.6
Wheat (US #2. DNS Rotterdam c.i.f. $ per metric ton)	209	210	187	183	182	177	182	168	171
Food Index [a] (1975=100)	232	203	167	184	194	176	176	176	174

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Industrial Materials Prices

	1980	1981	1982	1983	1984	1985			
						1st Qtr	Feb	Mar	Apr
Aluminum (¢ per pound)									
Major US producer	71.6	77.3	76.0	77.7	81.0	81.0	81.0	81.0	81.0
LME cash	80.8	57.4	44.9	65.1	56.8	49.2	50.0	49.5	49.8
Chrome Ore (South Africa chemical grade, $ per metric ton)	55.0	53.0	50.9	50.0	50.0	49.9	50.0	50.0	50.0
Copper [a] (bar, ¢ per pound)	98.7	79.0	67.1	72.0	62.4	62.1	63.5	62.2	66.6
Gold ($ per troy ounce)	612.1	460.0	375.5	424.4	360.0	300.0	302.1	295.3	326.7
Lead [a] (¢ per pound)	41.1	32.9	24.7	19.2	20.0	17.2	17.2	15.7	17.3
Manganese Ore (48% Mn, $ per long ton)	78.5	82.1	79.9	73.3	69.8	69.6	69.8	69.4	68.4
Nickel ($ per pound)									
Cathode major producer	3.5	3.5	3.2	3.2	3.2	3.2	3.2	3.2	3.2
LME Cash	3.0	2.7	2.2	2.1	2.2	2.2	2.2	2.3	2.4
Platinum ($ per troy ounce)									
Major producer	439.5	475.0	475.0	475.0	475.0	475.0	475.0	475.0	475.0
Metals week, New York dealers' price	677.0	446.0	326.7	422.6	358.2	269.3	276.4	256.3	286.7
Rubber (¢ per pound)									
Synthetic [b]	40.6	47.5	45.7	44.0	44.4	46.6	47.7	45.0	NA
Natural [c]	73.8	56.8	45.4	56.2	49.6	42.0	42.0	42.0	42.0
Silver ($ per troy ounce)	20.7	10.5	7.9	11.4	8.1	5.9	6.1	5.7	6.4
Steel Scrap [d] ($ per long ton)	91.2	92.0	63.1	73.2	86.4	83.7	82.0	86.8	NA
Tin [a] (¢ per pound)	761.3	641.4	581.6	590.9	556.6	501.1	499.0	499.7	533.3
Tungsten Ore (contained metal, $ per metric ton)	18,219	18,097	13,426	10,177	10,243	11,515	11,568	12,025	11,792
US Steel (finished steel, composite, $ per long ton)	486.2	543.5	567.3	590.2	611.61	617.83	617.83	617.83	NA
Zinc [a] (¢ per pound)	34.4	38.4	33.7	34.7	41.5	40.0	40.0	41.1	41.4
Lumber Index [e] (1975=100)	167	159	140	190	176	177	180	182	NA
Industrial Materials Index [f] (1975=100)	184	166	142	152	138	123.2	122.7	122.0	125.8

[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.
[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 11 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

	1980	1981	1982	1983	1984 [a]			1985	
					Annual	3d Qtr	4th Qtr	Jan	Feb
World	**59,463**	**55,827**	**53,014**	**52,588**	**53,827**	**53,195**	**53,661**		
Non-Communist countries	**45,243**	**41,602**	**38,810**	**38,228**	**39,257**	**38,711**	**38,952**		
Developed countries	12,859	12,886	13,276	13,864	14,302	14,216	14,618		
United States	8,597	8,572	8,658	8,680	8,735	8,776	8,807	8,737	8,911
Canada	1,424	1,285	1,270	1,356	1,411	1,397	1,448		
United Kingdom	1,619	1,811	2,094	2,299	2,535	2,451	2,646	2,815	
Norway	528	501	518	614	700	681	764	695	
Other	691	717	736	915	921	911	953	1,014	
Non-OPEC LDCs	5,443	6,036	6,633	6,823	7,515	7,565	7,704	7,179	
Mexico	1,936	2,321	2,746	2,666	2,746	2,724	2,723	2,644	
Egypt	595	598	665	689	827	833	890	890	
Other	2,912	3,117	3,222	3,468	3,942	4,008	4,091	3,645	
OPEC	26,941	22,680	18,901	17,541	17,440	16,930	16,630	14,846	16,391
Algeria	1,020	803	701	699	638	650	633	600	600
Ecuador	204	211	211	236	253	261	253	260	270
Gabon	175	151	154	157	152	157	150	150	150
Indonesia	1,576	1,604	1,324	1,385	1,466	1,400	1,411	1,160	1,190
Iran	1,662	1,381	2,282	2,492	2,187	2,002	2,299	1,400	2,100
Iraq	2,514	993	972	922	1,203	1,249	1,233	1,250	1,250
Kuwait [b]	1,389	947	663	881	912	933	834	900	900
Libya	1,830	1,137	1,183	1,076	1,073	1,027	1,000	1,000	1,000
Neutral Zone [c]	544	370	317	390	410	386	380	420	450
Nigeria	2,058	1,445	1,298	1,241	1,393	1,232	1,600	1,400	1,700
Qatar	471	405	328	295	399	440	317	345	290
Saudi Arabia [b]	9,631	9,625	6,327	4,867	4,444	4,338	3,699	3,300	3,800
UAE	1,702	1,500	1,248	1,119	1,097	1,012	1,056	1,106	1,106
Venezuela	2,165	2,108	1,893	1,781	1,813	1,843	1,765	1,555	1,585
Communist countries	**14,220**	**14,225**	**14,204**	**14,360**	**14,570**	**14,484**	**14,709**	**14,210**	
USSR	11,700	11,790	11,750	11,820	11,870	11,864	12,067	11,400	
China	2,113	2,024	2,044	2,120	2,280	2,200	2,222	2,390	
Other	407	411	410	420	420	420	420	420	

[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*

	1980	1981	1982	1983	1984				1985		
					Annual	Oct	Nov	Dec	Jan	Feb	Mar
United States [a]	17,006	16,058	15,296	15,184	15,708	15,631	15,602	15,353	16,142	15,975	15,909
Japan	4,674	4,444	4,204	4,193	4,349	3,880	4,373	5,029	4,683		
West Germany	2,356	2,120	2,024	2,009	2,012	1,902	2,076	1,856	2,162		
France	1,965	1,744	1,632	1,594	1,531	1,587	1,530	1,577	2,024	1,713	1,503
United Kingdom	1,422	1,325	1,345	1,290	1,624	1,835	1,996	1,870	1,903		
Italy [b]	1,602	1,705	1,618	1,594	1,513	1,502	1,560	1,558	1,763	1,809	1,573
Canada	1,730	1,617	1,454	1,354	1,348	1,410	1,423	1,311	1,363	1,374	

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

Big Seven: Crude Oil Imports *Thousand b/d*

	1980	1981	1982	1983	1984				1985		
					Annual	Oct	Nov	Dec	Jan	Feb	Mar
United States	5,220	4,406	3,488	3,329	3,402	3,751	3,552	3,126	2,700	2,126	2,670
Japan	4,373	3,919	3,657	3,567	3,664	3,405	3,489	3,722	3,194	4,053	
West Germany	1,953	1,591	1,451	1,307	1,335	1,060	1,366	1,328	1,360		
France	2,182	1,804	1,596	1,429	1,395	1,346	1,325	1,502	1,494	1,538	
United Kingdom	893	736	565	456	482	506	478	486	489		
Italy	1,860	1,816	1,710	1,532		1,416					
Canada	557	521	334	247	244	187	235	285			

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OPEC: Crude Oil Official Sales Price [a]

US $ per barrel

	1979	1980	1981	1982	1983	1984	1985			
							1st Qtr	Jan	Feb	Mar
OPEC average [b]	18.67	30.87	34.50	33.63	29.31	28.70	28.25	28.59	28.09	28.06
Algeria 42° API 0.10% sulfur	19.65	37.59	39.58	35.79	31.30	30.50	30.15	30.50	30.50	29.50
Ecuador 28° API 0.93% sulfur	22.41	34.42	34.50	32.96	27.59	27.50	26.82	27.50	26.50	26.50
Gabon 29° API 1.26 % sulfur	18.20	31.09	34.83	34.00	29.82	29.00	28.35	29.00	28.00	28.00
Indonesia 35° API 0.09% sulfur	18.35	30.55	35.00	34.92	29.95	29.53	28.88	29.53	28.53	28.53
Iran										
Light 34° API 1.35% sulfur	19.45	34.54	36.60	31.05	28.61	28.00	28.38	29.11	28.05	28.05
Heavy 31° API 1.60% sulfur	18.49	33.60	35.57	29.15	27.44	27.10	27.41	27.55	27.35	27.35
Iraq [c] 35° API 1.95% sulfur	18.56	30.30	36.66	34.86	30.32	29.43	28.78	29.43	28.43	28.43
Kuwait 31° API 2.50% sulfur	18.48	29.84	35.08	32.30	27.68	27.30	27.30	27.30	27.30	27.30
Libya 40° API 0.22% sulfur	21.16	36.07	40.08	35.69	30.91	30.40	30.40	30.40	30.40	30.40
Nigeria 34° API 0.16% sulfur	20.86	35.50	38.48	35.64	30.22	29.12	28.24	27.90	28.37	28.37
Qatar 40° API 1.17% sulfur	19.72	31.76	37.12	34.56	29.95	29.49	28.48	29.24	28.10	28.10
Saudi Arabia										
Berri 39° API 1.16% sulfur	19.33	30.19	34.04	34.68	29.96	29.52	28.48	29.27	28.11	28.11
Light 34° API 1.70% sulfur	17.26	28.67	32.50	34.00	29.46	29.00	28.32	29.00	28.00	28.00
Medium 31° API 2.40% sulfur	16.79	28.12	31.84	32.40	27.86	27.40	27.48	27.65	27.40	27.40
Heavy 27° API 2.85% sulfur	16.41	27.67	31.13	31.00	26.46	26.00	26.50	26.50	26.50	26.50
UAE 39° API 0.75% sulfur	19.81	31.57	36.42	34.74	30.38	29.56	28.52	29.31	28.15	28.15
Venezuela 26° API 1.52% sulfur	17.22	28.44	32.88	32.88	28.69	27.88	27.69	27.88	27.60	27.60

[a] F.o.b. prices set by the government for direct sales and, in most cases, for the producing company buy-back oil.
[b] Weighted by the volume of production.
[c] Beginning in 1981 the price of Kirkuk (Mediterranean) is used in calculating the OPEC average official sales price.

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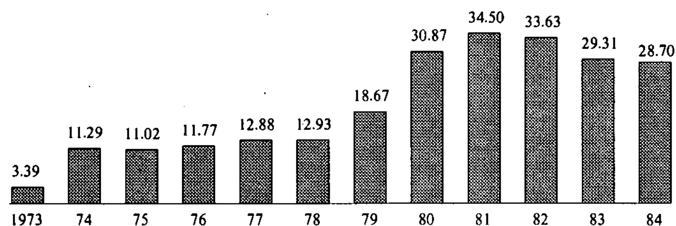
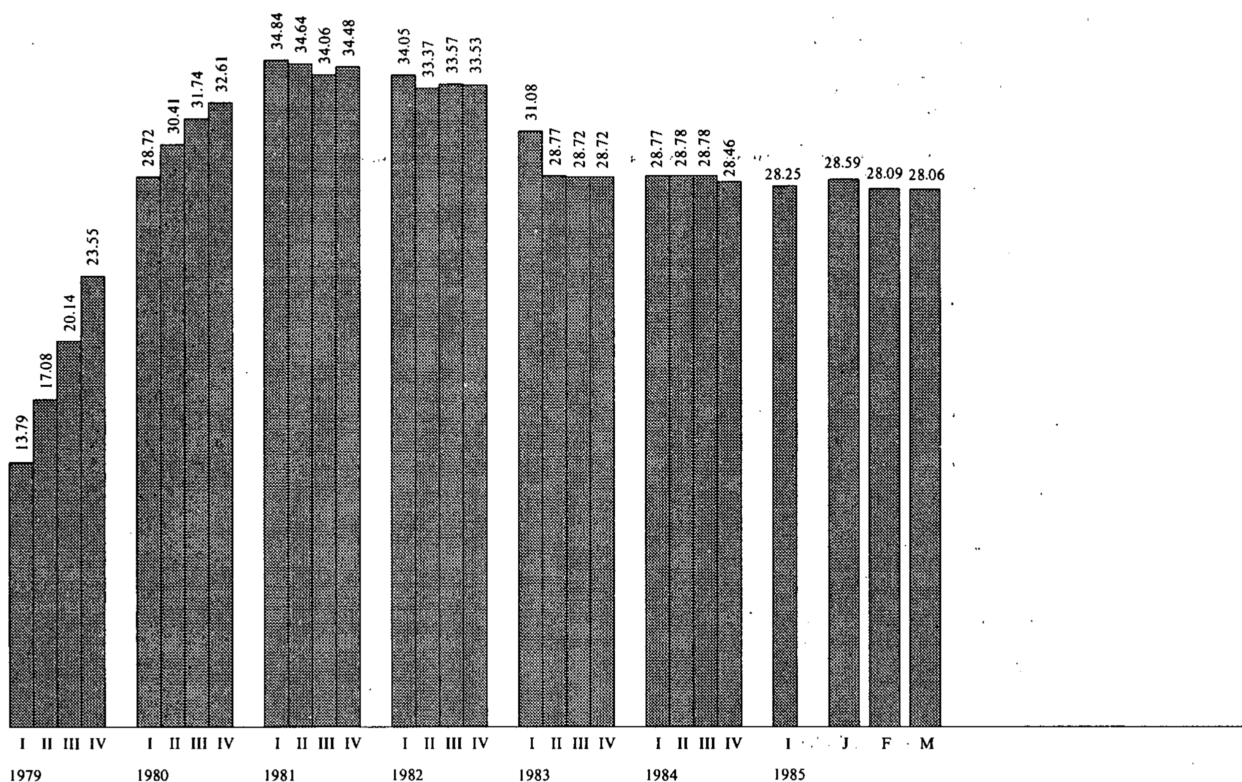
OPEC: Average Crude Oil Sales Price

US $ per barrel



Annual average



The 1973 price is derived from posted prices, not official sales prices.

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