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MEMORANDUM FOR THE RECORD

SUBJECT: The Soviet Economy in 1975;

The attached report was forwarded to Mr. David Evans, Assistant Director for Non-Market Economies, CIEP, for his information.

Attachment:
As stated

(S-09081)

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CIA/OER
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The Soviet Economy in 1975

According to official data, national income -- roughly equivalent to the Western concept of GNP -- grew by only 3.4 percent in 1975. This was only about half the planned rate and the lowest rate achieved in the 1970s. Despite high rates of growth in most economic sectors during the first half of the year, the severe and continuous drought cut sharply into Soviet economic performance during the last six months of 1975. Since agriculture accounts for almost one-fourth of Soviet GNP, the harvest failure is having widespread economic repercussions in other sectors as well. Industrial production, for example, which increased by 7.5 percent in 1975 according to the official but inflated index, is scheduled to grow by only 4.3 percent in 1976, the lowest rate of increase planned since World War II. As in previous downturns, consumer goods and services will bear the brunt of next year's reduced industrial growth, although heavy industry will experience cutbacks as well.

Total grain production in 1975 is reported to have been 137 million metric tons, or 78 million tons below target. In coping with this shortfall, the Soviets will undoubtedly draw down their grain stocks, which we believe are in the 10-15 million-ton range. They have contracted for about 26-1/2 million tons, a figure which we estimate will rise to about 30 million tons for delivery before October 1976. Taken together, reserve stocks and imports will narrow the gap between the harvest outturn and requirements, but the Soviets presumably will have to take a combination of additional, unpalatable steps such as: (a) buy more grain up to the logistical import limit of 36 million tons annually; (b) buy more soybeans and meat; (c) reduce the quality of bread and other bakery products; (d) cut livestock feed rations, and (e) slaughter additional livestock.

The poor showing in the Soviet economy has been accompanied by slow-down in exports to the recession-ridden West and record imports of grain and equipment. The Soviet hard currency deficit in 1975 may reach a record \$5 billion. A deficit is also expected in 1976 with the size depending on Soviet export performance.