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CENTRAL INTELLIGENCE AGENCY
WASHINGTON, D.C. 20505

18 September 1975

MEMORANDUM FOR: Ms. Kathy Brion
USSR Affairs Branch
Department of Commerce

SUBJECT : Current Outlook for the Soviet Economy

Attached is an updated version of the briefing on "USSR: Current Outlook for the Economy," which you requested for Assistant Secretary Baker's upcoming trip to Moscow.

Office of Economic Research

Attachment:
As stated

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CIA HISTORICAL REVIEW PROGRAM
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USSR: Current Outlook for the Economy

The Soviet economic performance for the first half of 1975 was marked by high rates of growth in most sectors, often surpassing the levels attained in 1974. The domestic economy -- prices, employment, production -- remained little affected by the continuing inflation and slow economic growth in the West. However, the expected major shortfalls in Soviet agricultural production, the need to import grain, and the drawing down of domestic stocks, will certainly trim Soviet economic gains for the rest of 1975.

- Industrial production, by Soviet measures, increased 7.7% during the first half of 1975. While below the 8% registered in 1974, this is nevertheless the second highest rate achieved during the current Five-Year Plan.
- State capital investment, which accounts for 85% of total capital investment in the economy, increased by 9% over the level of the first half of 1974. This rate tops the 1975 plan target of 8%. The agricultural sector and the fuel and power industries appeared to have the first claims on investment resources.
- Oil and natural gas output for the first six months exceeded their plan targets by comfortable margins.

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Severe drought, however, has cut crop prospects sharply.

- Grain output, for example, is estimated to be 45 million tons below the 1975 plan target. Since agriculture contributes almost one-fourth of GNP, this shortfall considerably dampens overall economic prospects for 1975. The 1974 increase in national income (Soviet definition) of 5% is not likely to be repeated this year.

The USSR has so far purchased approximately 16 million tons of foreign grain in FY 1976. Moscow undoubtedly will draw down grain stocks, which we believe do not exceed 10-15 million tons and may be considerably less. In addition, the Soviets presumably will have to take a combination of unpalatable steps:

- negotiate for further large amounts of grain from the United States - the only large supplier in sight,
- import further amounts of soybeans from the United States and Brazil,
- cut livestock feed rations to the 1972 level while maintaining livestock numbers, saving up to 13 million tons, and
- slaughter additional livestock (a 5% reduction in herds would save about 6 million tons).

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Some major goals of the Five-Year Plan (1971-75) will not be met.

- Many of the consumer goals cannot be reached because of disappointing harvests in 1972, and 1975, and because of slow construction and assimilation of new production capacity.
- Wage increases will be held down to keep incomes in line with available goods and services. The Soviets are now a full year behind in their schedule for implementing the new minimum wage scales.
- Oil and natural gas output will not reach their targets, largely because of the depletion of older fields and technical problems in exploiting new areas.

Soviet hard currency trade in 1975 has been strongly affected by Western inflation and recession.

- Higher world prices have boosted Soviet export earnings, but the continuing Western recession has constrained Soviet export performance. The prospects are slim for an upswing in Western import demand for the remainder of 1975.

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-- Soviet imports from major Western trading partners increased throughout the first half of 1975, and the large deliveries of Western grain will accelerate import growth even more.

-- As a result, the USSR will incur a record trade deficit this year of between \$2 and \$3 billion.

The Soviets should be able to cover this year's deficit largely through Western credits.

-- Net medium and long-term credits may exceed \$1.4 billion in 1975.

-- The USSR has negotiated \$400 million in Eurocurrency loans since December 1974, and is presently arranging another loan of \$400 million.

-- Soviet gold sales are expected to exceed last year's total of almost \$700 million.

The main underlying problems in the Soviet economy continue to be:

-- stagnating factor productivity growth in both industry and agriculture,

-- poor economic management,

-- slow translation of new technology and new products into large-scale production,

-- chronic deficiencies in the agricultural sector,

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-- acute shortages of housing, the generally poor quality of consumer goods, and indifferent service in the consumer sector.