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(When filled in)

√ 12/2

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| Support Project Initiation Memorandum (for Non-Scheduled Intelligence Production) | Type B | Control Number 09109 |
| --- | --- | --- |

TO: Production Control Staff.

**2. Title or Subject (31)**
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**3. Analyst(s) & Other Contributors (31)**
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Manhours: 9

Completion Date (y m d) 1975 11 18

**4. Requester and Purpose (39)**
Line 1 Briefing package for Ambassador
Line 2 Stoessel, US Ambassador to USSR, via
Line 3 DCh/D/U, OER.
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Line 6 P

Classification (39)
SECRET

**5. Precis (39)**
Line 1 Analysis of expected Soviet hard
Line 2 currency trade deficit for 1975 and
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Line 4 comparison of State department
Line 5 analysis with CIA's and reasons for
Line 6 differences.
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APPROVAL: (Acting Chief) Date 11/18/75

Date

Director (for special requesters) Date

Note: Numbers in parentheses indicate the maximum number of characters and blanks to be inserted in a line—i.e., (16) means no more than 16 spaces.



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# Soviet Hard Currency Deficit May Exceed $5 Billion in 1975

The USSR's hard currency trade deficit in 1975 may be on the order of $5 billion. A weak gold market has forced Moscow to rely heavily on Western credits to cover the deficit, and these will carry the Soviets through the year. The Soviets probably will also incur a deficit in 1976, but an improved export performance should keep it significantly below the 1975 level.

## Soviet Trade in 1975

Based on Western trade data through August, we now estimate a Soviet hard currency deficit in 1975 on the order of $5 billion. Soviet imports probably will rise by over $4.5 billion in 1975 to approximately $13 billion. This increase comes largely from higher imports of equipment and large diameter pipe; estimated imports of grains are expected to rise by only $1 billion in 1975 to $1.5 billion.

Soviet exports to hard currency countries are expected to rise by 6% in 1975 to roughly $8 billion in spite of the poor Soviet export performance thus far. Soviet exports to the developed West during the second half of the year are typically larger than in the first half. This trend should be reinforced by a modest economic recovery in the West and, in particular, by known planned increases in Soviet oil

USSR: Hard Currency Trade Balance

| | 1973 | 1974 | 1975 (estimated) |
|---|---|---|---|
| | | | Billion US $ |
| Soviet Exports | 4.8 | 7.6 | 8.1 |
| Developed West | 4.4 | 6.7 | 7.1 |
| Less Developed Countries | 0.4 | 1.0 | 1.0 |
| Soviet Imports | 6.5 | 8.5 | 13.3 |
| Developed West | 5.6 | 7.2 | 11.8 |
| Less Developed Countries | 0.9 | 1.4 | 1.5 |
| Balance of Trade | -1.7 | -0.9 | -5.2 |

NOTE: Totals may not add because of rounding.

exports during the last part of the year. Little information is available on Soviet exports to the less developed hard currency countries, and 1975 exports were assumed to be close to 1974 levels.

Financing the Deficit

We continue to believe that the USSR will manage the projected trade deficit in 1975. Soviet earnings from tourism, transportation, and arms sales could total $1 billion, leaving roughly $4 billion to be financed through a combination of gold sales and drawings on Western credits.

Moscow's ability to sell gold, however, is currently limited by poor market conditions. While the USSR appears ready to enter the market if conditions improve, sales have apparently remained light since the end of August and are expected to rise only moderately during the balance of the year. The USSR is believed to have sold more than $650 million in gold in the first seven months of 1975; total sales for the year could reach $1 billion, however.

Most of the 1975 deficit will have to be covered by drawings on Western credits -- probably from $3 billion to $3.5 billion net of repayment on past debt. The Soviets reportedly are concerned over their ability to secure sufficient credits in the West and are contacting a number of banks in Europe and in the US for additional loans. Western bankers, however, continue to regard the USSR as an excellent credit risk, and Moscow should be able to raise the necessary funds on the money market.

Moscow appears to have lined up sufficient credits to cover their 1975 obligations and some recent Soviet activities seem related to 1976. Past and current negotiations are summarized below.

- An estimated $2.5 billion in Soviet imports of Western equipment will be financed by long-term credits in 1975. Net credits should approximate $1.4 billion.
- The USSR had roughly $1.3 billion in Eurocurrency deposits in London at the end of 1974. During the first half of 1975 these assets were drawn down by more than $350 million.
- Since midyear, the USSR apparently has arranged -- via three separate syndications -- $1.3 billion in five-year Eurocurrency credits. The Soviets are known to have arranged

for the syndication of a total of $400 million in Eurocurrency credits earlier this year, bringing total known and suspected consortium credits to $1.7 billion.

- New York bankers have reported a substantial increase in the value of bank-to-bank credit lines extended to the USSR to finance Soviet equipment and grain purchases from the US. In Addition, Soviet negotiators reportedly visited US banks recently, asking for sizable credit lines to finance future Soviet equipment purchases in the US.

Trade in 1976

The USSR will also run a trade deficit in 1976. Imports of grains already ordered should reach $2.5 billion, and imports of capital goods should remain high. There has been no indication of major cutbacks in orders of equipment; in fact, 1975 orders should exceed the $4 billion recorded in 1974.

The size of the 1976 deficit will depend largely upon the ability of the USSR to revive its hard currency exports to the West. Continued Western economic recovery, higher oil prices, and increased natural gas deliveries should boost Soviet export performance in 1976.

Implications

The size of the Soviet deficits in 1975 and the prospects for another fairly sizable one in 1976 may give the normally fiscally conservative Soviets pause. Extensive borrowing will bring the expected debt service ratio to 20% in 1975 -- up from 15% in 1974 -- and continued large deficits could force it even higher. Continued Soviet difficulty in improving export performance could bring a cutback in imports, particularly consumer goods. The Soviets have been arguing, with some success, with Western trade partners for increased Western imports of Soviet products. They have been particularly insistent on Western buy-back provisions in contracts for large Soviet purchases of capital equipment. The Soviets may also wish to roll over some of their credits.

# Comparison of INR and OER Projections of 1975 Soviet Hard Currency Trade

## Methodology

INR's projections are based on 6-month trade data from the USSR's 6 major hard currency trading partners. Projections were made for the year by strict extrapolation of first half performance and by assuming that hard currency trade with other partners represents the same proportion of total trade as in recent years. Another set of projections is made on the assumption of a shift in trade performance in the second half, yielding a range of projections.

OER's projections are based on 8-month trade data from the USSR's 6 major hard currency partners, 5-month data from smaller trade partners, and a reconciliation of Soviet and Western trade data. Trade with the smaller countries is examined to determine if the proportion of Soviet trade with these countries is the same this year as historically. Estimates of Western data are made by extrapolation of available data and then adjusting for seasonal patterns. These projections are then adjusted for expected differences between Western and Soviet data. Past experience shows that Western data overstate Soviet exports (since the West includes shipping charges and the Soviets do not) by 11% and understate Soviet imports by about 4%

Soviet Exports

INR's projection of Soviet exports is \$7-\$8 billion, CIA's \$9 billion, making the INR midpoint about \$1.5 billion less than CIA's. CIA's is higher because exports to the smaller OECD countries (not examined by INR) are running at a rate \$500 million greater than last year. In addition, CIA made a seasonal adjustment: Soviet exports in the second half of the year are traditionally about 22% greater than in the first half, and it is assumed that an increase in Western economic activity in late 1975 will guarantee this increase.

Soviet Imports

INR's and CIA's projections of imports, based on extrapolations of Western trade data, are both \$12.7 billion. CIA finds that the share of imports from smaller developed countries is the same in early 1975 as in 1974. CIA's adjustment to approximate Soviet data raise imports to \$13.3 billion. INR's range is based on possible changes in second-half imports which CIA does not expect.