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28 JUN 1963

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MEMORANDUM FOR: Mr. Adrian S. Fisher
Deputy Director
U.S. Arms Control and Disarmament Agency
Department of State Building, Room 5934
Washington 25, D. C.

SUBJECT: Soviet Financial Reserves

1. In response to your request of 21 June for information on Soviet financial reserves, we have prepared some material on this subject which is attached.

2. I regret that we have not been able to prepare the estimate that Bob Matteson wanted of the costs of the inspection provisions of the draft treaty. The draft treaty does not contain enough specific data on which to base a reasonable estimate.

We do think, however, that the size of Soviet reserves of foreign currency would have no significant bearing on Soviet willingness to undertake inspections on U.S. soil, because Soviet expenditures in the U.S. for this purpose would be balanced approximately by U.S. expenditures for inspections in the USSR.

Enclosure:
"Soviet Financial Reserve and Payments Position"

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26 June 1963

SOVIET FINANCIAL RESERVE AND PAYMENTS POSITION

1. Soviet Financial Reserves

Soviet financial reserves consist almost wholly of gold. Soviet gold reserves at the end of 1962 are estimated at slightly more than 62 million ounces or approximately \$2.2 billion at \$35 per ounce. The USSR maintains only enough foreign currency for what it calls freedom of "maneuverability in foreign trade." It is estimated that the USSR State Bank and the USSR Foreign Trade Bank hold in their own vaults and in correspondent accounts abroad approximately \$200 million at any given time with slight variations from time to time depending on the status of payments for imports and revenues from exports.

Large quantities of gold have been sold each year as Soviet imports have risen well above the level that could be readily financed by commodity exports. Earnings from such sales in the non-Communist World are second only to the chief Soviet foreign exchange earner, petroleum. The following table shows estimated Soviet gold sales since 1953:

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Soviet Gold Sales*
1953-1962

	<u>Million \$US</u>		<u>Million \$US</u>
1953	150	1958	182
1954	93	1959	303
1955	70	1960	125
1956	154	1961	311
1957	275	1962	209

* 1963 Soviet gold sales are estimated at \$139 million to date.

Since 1952 Soviet sales and internal consumption of gold have exceeded production and other acquisitions. During the decade 1953-1962 an estimated 53 million ounces (\$1.85 billion or \$185 million annually) were sold resulting in an estimated decline in Soviet gold reserves of about 27 million ounces (almost \$1 billion). The rate of decline in Soviet gold reserves has increased since 1959 and sales since that year have averaged \$220 million (6.3 million ounces) largely as a result of increased imports from Western industrial countries. If sales continue at the recent pace, it is estimated that there will be a further decrease in gold reserves. However, Soviet gold production has begun to increase after many years of stagnation. Throughout the postwar period until 1959 output remained more or less at 3.5 million ounces (\$125 million). As a result of

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new investment at recently found deposits in Magadan, gold production has risen and 1963 Soviet gold production is estimated at about 5 million ounces (\$175 million). Further increases can be anticipated both from the new Magadan deposits and possibly from the newly-discovered deposits in Uzbekistan and Armenia.

If annual sales continue at the \$220 million (6.3 million ounces) rate of recent years and should Soviet gold production continue to increase at the gradual rate of the past few years, it may be several years before the drain on Soviet gold reserves will cease. The prospect of a continuing decline in reserves need not be of any real concern to the USSR, however. The present average rate of loss of two or three million ounces (\$75-100 million) annually could be sustained for many years. Soviet statements that ruble banknote circulation requires a 25 percent backing in gold and currency reserves (hence the maintenance of substantial financial reserves) are meaningless inasmuch as the ruble is not convertible to gold either domestically or abroad. The stated gold content of the ruble therefore does not affect its international value nor its domestic negotiability. It must be assumed that the USSR can manipulate, without public notice, the legal reserves in response to the changing requirements of the Soviet state.

2. USSR Balance of Payments vis-a-vis Non-Communist Countries

Payments arising from merchandise trade account for an overwhelming share of the Soviet balance of payments as shown in the

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attached Soviet balance of payments table for the years 1960-1962. The USSR normally sustains a deficit in its trade account (the first two items in the table) with non-Communist countries, the year 1962 being an exception. This deficit, plus other deficits incurred from non-trade items, is largely financed through gold sales and more recently from credits as well. These credits are provided chiefly by a few Western European countries and Japan to finance Soviet imports of industrial and transportation equipment, and they have measurably eased the pressure on the Soviet payments position. Without such credits the USSR would probably have had to sell even more gold or reduced needed imports.

Of interest is the fact that the USSR sustained a considerable deficit in its balance of payments in 1960. In that year the USSR withheld gold from international bullion markets in the hope that the US would raise the price of gold. The USSR was able to finance this deficit largely from accumulated holdings earned from above-average gold sales in 1959 (\$303 million) and by borrowing short-term on the Western European money market.

It should be noted that the balance of payments does not reflect trade conducted in hard currencies alone. Some of the trade conducted with many Western countries, although based principally on convertible currencies, is done on a barter basis. Moreover, Soviet credits to and

USER Balance of Payments with Non Bloc Countries 1960-62
Millions of U.S. Dollars

	1960		1961		1962	
	Credit	Debit	Credit	Debit	Credit	Debit
<u>Current Account</u>						
Commodity Trade, F.O.B.	1,354	1,651	1,677	1,680	2,124	1,088
Freight, Insurance		165		170		1
Unilateral Transfers (net) (including Austrian reparation payment and USER contributions to U.N.)	16		7			9
Diplomatic, Commercial Representation (net)		25		25		25
Tourist Services (net)	5		6		7	
Trade Fairs (net)		10		10		10
Total Current Account	1,375	1,851	1,690	1,885	2,131	2,122
Net Current Account		476		195		9

USSR Balance of Payments with Non Bloc Countries 1960-62
(continued)

Millions of U.S. Dollars

	1960		1961		1962	
	Credit	Debit	Credit	Debit	Credit	Debit
<u>Means of Financing</u>						
Credits from the Industrial West (net)	165		140		140	
Credits to Underdeveloped Countries (net)		127		189		216
Gold Sales	125		311		209	
Total Means of Financing	290	127	451	189	349	216
Net Means of Financing	163		262		193	
Net Payments Position		313		67		112

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repayments from underdeveloped countries generally do not involve convertible currencies. USSR officials have stated, however, that about 70 percent of its trade with the non-Communist world is based on convertible currencies.

3. Soviet Expenditures for Propaganda, Espionage, Support of Communist Parties, etc.

Information received on this subject is often of a questionable nature, contradictory, incomplete, and frankly unreliable. There have been a few reports purporting to show the USSR's subsidy payments to foreign communist parties but they are of an unknown ^{reliability} quantity.

The Italian Communist Party also received some \$1.6 million for the recent Italian election campaign.

It is also known that some of the income of foreign communist parties comes from Communist-controlled commercial enterprises in Western countries. The Austrian Communist party purportedly receives about 80 percent of its income from such enterprises.

Some of the USSR's payments for propaganda, espionage, and support of foreign communist parties are reflected in expenditures for diplomatic and commercial representations. It is generally known that a number of the representatives in Soviet diplomatic and commercial missions are employed by the Soviet state security organs.