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Folder Title: Soviet Bloc Economic and Financial
Situation Update: (02/17/1982)
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Collection Name EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

Withdrawer

KDB 8/4/2015

File Folder SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION
UPDATES (2/17/82)

FOIA

F03-002/5

Box Number 19

SKINNER

94

| ID | Doc Type | Document Description | No of Pages | Doc Date | Restrictions |
|--------|----------|--|-------------|-----------|--------------|
| 168585 | MEMO | N. BAILEY TO W. CLARK: SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION: UPDATE #10 PAR 10/12/2010 CREST NLR-748-19-17-1-8 | 2 | 2/17/1982 | B1 |
| 168586 | CABLE | | 3 | 2/6/1982 | B1 |
| 168587 | CABLE | | 5 | 2/5/1982 | B1 |
| 168588 | CABLE | | 6 | 2/9/1982 | B1 |
| 168589 | CABLE | | 2 | 2/9/1982 | B1 |
| 168590 | CABLE | | 4 | 2/9/1982 | B1 |
| 168591 | CABLE | | 2 | 2/9/1982 | B1 |

Freedom of Information Act - [5 U.S.C. 552(b)]

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| 168593 | CABLE | | 2 | 2/10/1982 | B1 |
| 168597 | REPORT | RE POLAND (PAGES 21-22 ONLY) R 4/8/2013 CREST 748-19-17-12-6 | 2 | 2/12/1982 | B1 |

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168585 MEMO

2 2/17/1982 B1

N. BAILEY TO W. CLARK: SOVIET BLOC
ECONOMIC AND FINANCIAL SITUATION:
UPDATE #10

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MEMORANDUM

1014

NATIONAL SECURITY COUNCIL

February 17, 1982

168585

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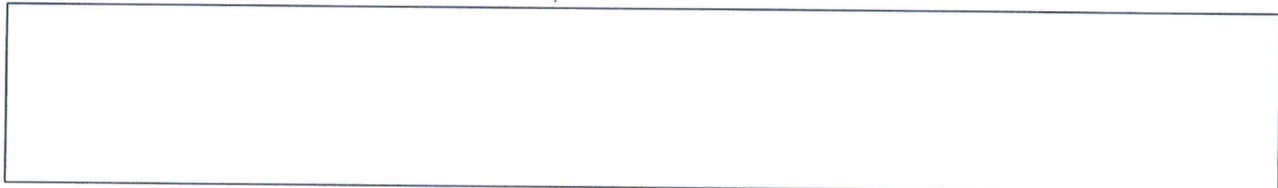
ON-FILE NSC RELEASE INSTRUCTIONS
APPLY

INFORMATION

MEMORANDUM FOR WILLIAM P. CLARK 25X1

FROM: NORMAN A. BAILEY *NB*

SUBJECT: Soviet Bloc Economic and Financial
Situation: Update #10



-- Both Mitsui and Mitsubishi are diverting sugar purchases from Cuba to Australia because of Cuba delivery failures in 1980 (Tab B). (S)

-- The Soviets are pressuring the Finns to convert tourism receipts from a clearing-house (short delays) to a cash basis (Tab C). (S)

-- The Soviet Union has run out of titanium scrap to export "at least until the third quarter of 1982" (Tab D). (S)

-- Sharp reductions in Soviet deliveries of petroleum products is causing grave disruptions to the East German economy (Tab E). (S)

-- Romanian payments delays on a large contract with Mitsui for construction of petrochemical plants are getting worse and Mitsui is now concerned ". . . about all future payments" (Tab F). (S)

-- The Soviet Foreign Trade Association Promysyr'Veimport, responsible among other things for the import of large diameter welded pipe, is completely out of funds and will have none until July 1982 at the earliest (Tab G). (S)

-- The Soviets have requested a \$700,000,000 loan from a consortium of Japanese banks. The banks are reportedly considering the request (Tab H). (S)

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Review February 8, 2002
Derivative Classification by CIA
DRV D9C.1

DECLASSIFIED IN PART

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BY CN NARA DATE 4/2/13

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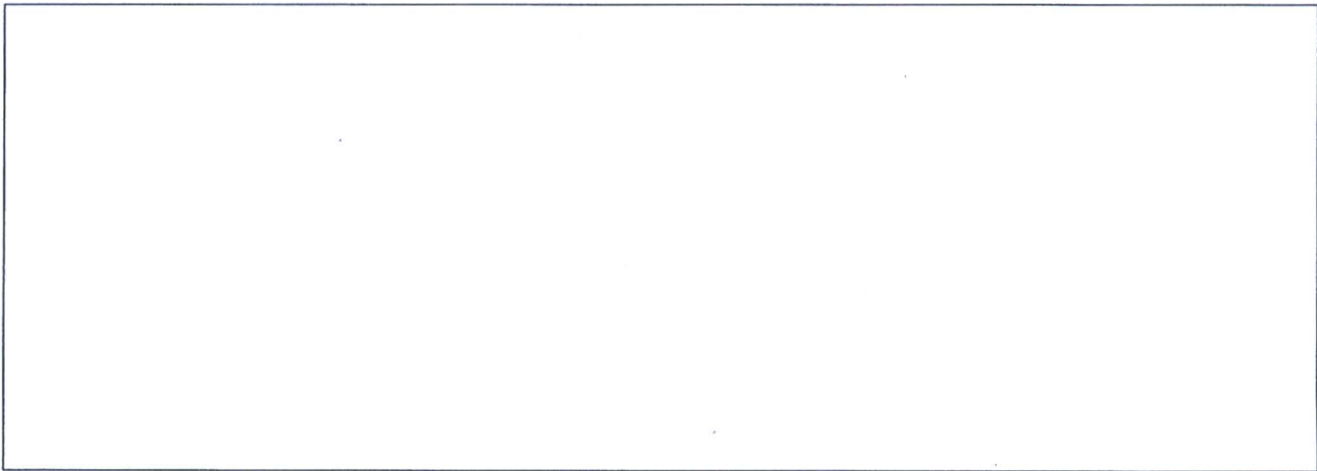
2

-- It is reported that Hungary will have to draw heavily from the IMF immediately upon admission (Tab I). (C)

-- Food rationing is spreading in the USSR (Tab J). (C)

-- Without massive new aid or rescheduling on even easier terms, there is no way Poland can service its 1982 debt maturities and interest payments (Tab K). (S)

25X1



cc: Richard Pipes
William Stearman
Paula Dobriansky
Gus Weiss
Henry Nau
Tom Reed
Don Gregg

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~~C O N F I D E N T I A L~~ BUDAPEST 0752

EXDIS
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DEPT. PASS TREASURY
E. O. 12065: RDS 4 2/12/2002 (BERGOLD, HARRY E., JR.) OR-M
TAGS: EFIN, IMF, GW, HU
SUBJECT: CC OFFICIAL CONFIRMS HUNGARY'S DETB-SERVICE BURDEN
FOR 1982 AND NEED TO DRAW ON IMF FACILITIES
REF: A) BUDAPEST 447; B) BUDAPEST 431; C) BUDAPEST 490

1. (C) ENTIRE TEXT

2. A SENIOR CENTRAL COMMITTEE STAFF OCCICIAL TOLD THE FRG EMBASSY LAST NOVEMBER THAT HUNGARY'S DEBT-SERVICE BURDEN HAS REACHED THE 1,800 TO 2,000 MILLION U.S. DOLLAR RANGE AND THAT, IN ADDITION TO DOMESTIC SOURCES, HUNGARY WILL NEED TO RAISE 300 MILLION DOLLARS FROM EXTERNAL SOURCES TO SERVICE ITS DEBT IN 1982. THE CENTRAL COMMITTEE STAFF OFFICIAL ADDED THAT, BECAUSE OF DIFFICULTIES IN BORROWING THROUGH EUROMARKETS, HUNGARY WOULD NEED TO DRAW ON IMF FACILITIES FOR THE 300 MILLION DOLLARS SOON AFTER IT IS ABLE TO JOIN. THE OFFICIAL ALSO NOTED THAT THERE HAD BEEN OPPOSITION IN CEMA TO HUNGARY'S IMF APPLICATION.

3. COMMENT: THE INFORMATION REGARDING HUNGARY'S DEBT-SERVICE BURDEN ACCORDS WITH OUR ESTIMATES IN REFTELS. THE CENTRAL COMMITTEE STAFF OFFICIAL PROVIDED THIS INFORMATION TO THE FRG ECONOMIC COUNSELOR (PROTECT) SHORTLY BEFORE POLIT-BURO MEMBER HAVASI DEPARTED FOR THE FEDERAL REPUBLIC ON NOVEMBER 16, 1981. THE FRG ECONOMIC COUNSELOR RELATED THE ABOVE INFORMATION ON FEBRUARY 11 TO OUR ECONOMIC OFFICER WHO ASKED WHETHER HAVASI RAISED DEBT AND THE IMF ISSUES DURING HIS VISIT TO GERMANY. THE FRG COUNSELOR REPLIED THAT HE WAS UNAWARE OF THE SUBSTANCE OF HAVASI'S DISSUSSIONS. OUR GUESS IS THAT HAVASI WENT TO THE FRG INTER ALIA TO CONFIRM GERMAN GOVERNMENT SUPPORT FOR GERMAN BANK LOANS TO HUNGARY AND FOR HUNGARY'S IMF APPLICATION. SINCE THE ABOVE INFORMATION WAS PROVIDED, HUNGARY HAS EXPERIENCED ADDITIONAL DIFFICULTY IN MAINTAINING ITS MONEY MARKET CREDIT LINES WITH WESTERN BANKS (SEE REF C).
BERGOLD
BT

EXDIS

EXDIS

EXDIS

EXDIS

NLRR 748-19-17-11-73

BY LAB NARA DATE 8/4/15

3. FOOD RATIONING SPREADS IN USSR

Local rationing of meat and dairy products is spreading throughout the Soviet Union. First observed in smaller Soviet cities, we now see it in Moscow. The forms include food distribution to workers at the factories, guaranteed minimums at designated stores, monthly ration coupons issued by city authorities, and limitations on quantities purchased. The public regards such measures as equitable. They will remain in effect through 1983, perhaps through 1985.

* * *

Despite large imports of food, three consecutive grain harvest failures combined with distribution problems, have gradually forced local authorities to resort to rationing schemes. Equity is a primary goal, but maintaining industrial labor productivity is equally important. Food distribution at factories also serves to curb absenteeism for shopping, which had become widespread.

No national rationing system seems likely at present, and different local procedures are in effect. The most common is the factory-order system which, according to directives implementing the 1981-85 plan, is scheduled to become even more widely used. Workers are receiving a monthly average ration of 2 kilograms of meat delivered directly on the factory premises. (Supplemental purchases can be made at farmers' markets and in state stores where supplies are available.) Factories also are being pressured by the government to establish their own farms to raise food.

Some cities, for example Irkutsk, have established a system of state stores whereby registered customers can receive 1 kilogram of meat and 300 grams of butter each month. This small amount is to be a guaranteed minimum. (The national average for annual consumption is 57 kilograms.) Other cities, such as Kazan, issue red and blue coupons for meat and dairy products good for up to 3 kilograms per month, but do not guarantee availability.

Another widespread system is the imposition of ceilings on the amount of bread, meat, butter, and sugar sold to each customer. Individuals are free to visit several stores in the hope of getting their share, but this recourse is not available in small villages where there is only one general store. (To discourage suburban shoppers, many stores began closing on Sundays years ago.)

Controls on the sale of bread may become stricter. Complaints in a January 21 speech by the Ukrainian party leader that bread controls pose a special problem because the low price and availability of bread are sacrosanct in the USSR. But the government encouraged its use as animal feed, a practice Khrushchev unsuccessfully tried to stop with police and court sanctions. It may be edging in the same direction. In areas where bread is used as animal feed, an unpublished party decree limited the amount to each customer to one kilogram per day. The quantities are available and the weight of each loaf already set. So far quality has not been degraded.

168597

Poland: Financial Outlook (U)

Since the imposition of martial law, Poland's financial situation has deteriorated even further. Warsaw has been unable to complete the 1981 private rescheduling accord. Western governments have suspended talks on debt relief for 1982 and are also less willing to extend further credits, leaving Poland with virtually no foreign help to cover its huge 1982 debt service bill.

The likely outcomes of Poland's financial crisis have narrowed to a few possibilities. None of these will do much either to damage Warsaw's already shattered hard currency trade and financial relations, or to restore creditworthiness. The prospects remain poor that Warsaw can overcome the financial hurdles which prevent imports of the raw materials, spare parts, and semimanufactured goods that are necessary for economic recovery.

The next benchmark for Poland is Monday. Warsaw has notified the banks that 1981 interest will be paid up by then, paving the way for signature of the 1981 rescheduling agreement before the end of this month. Bankers are generally confident that the Poles will keep their promise, but interest payments will have to flow faster than they have in the past six weeks for the \$200 million still unpaid at the end of January to be paid in time.

Even if Warsaw fails to meet its deadline, banks still might not call default. Creditors have held off calling default through many months of Polish moratorium, arrearages, missed deadlines, economic slump, political turmoil, and now, martial law. Banks want to keep the trickle of interest payments flowing, and to avoid large loan writeoffs. The banks hope that Moscow will provide the money for interest due, but Polish officials have said that they expect no further Soviet hard currency help.

The likelihood of default increases, however, as the 1981 private rescheduling impasse continues and 1982 arrearages mount. Any of the 501 banks to which Warsaw has overdue interest and principal payments could declare default, and governments could take action on several grounds:

- In some cases, Warsaw has not paid the 10 percent of principal and interest due in 1981 that was not covered by the official rescheduling agreement.
- Arrears have already started to build up this year on government-guaranteed credits.
- The imposition of martial law makes the regime vulnerable to the "tank clause," which allows the Western creditors to abrogate the 1981 rescheduling agreement under exceptional circumstances.

Legal default could lead to a scramble by private creditors for Poland's assets in the West, the value of which would offset only a tiny fraction of Poland's hard currency debt. Foreign trade would be disrupted, but probably not much. After a sharp drop in 1981, trade has fallen further since martial law.

While Poland's desperate financial condition limits the additional damage that default could inflict in the short run, default probably would make Poland's return to creditworthiness and access to credits a longer and more difficult process. The stigma of formal default probably would be more difficult to overcome than a rescheduling. Moreover, suits and claims could hamstring Polish financial and commercial relations for some time.

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NLRR CRS/NR-748-19-17-121-6

BY CV NARA DATE 4/8/83

If the impasse continues beyond 15 February and banks do not initiate default, Warsaw will still be in a financial straitjacket. Banks will be unwilling to increase their exposure, even by extending short-term credits. Moreover, the urgent need to pay 1981 interest forces Warsaw to place an extremely high priority on paying banks rather than buying imports. With Poland's reserves depleted and export revenues apparently only a trickle, there is little left for imports.

If Warsaw manages to pay interest and other fees required by the agreement on terms reached with Western banks last fall, it will have cleared its most immediate financial hurdle. The conclusion of the agreement will be a plus for the regime—the first major economic agreement with the West since martial law. The Poles hope that cleaning up the 1981 obligation will encourage banks to restore short-term credit lines which will allow some expansion of trade.

Warsaw's Financial Strategy

Assuming that the 1981 private debt relief agreement will be completed, Poland then will have to tackle the massive burden of some \$10 billion in payments due in 1982. This year Warsaw owes \$5 billion in principal payments to Western governments and banks, and another \$1.8 billion to non-Western creditors. Interest charges are estimated at \$3.3 billion.

At this point, Warsaw apparently has paid none of its 1982 debt service, concentrating instead on covering its 1981 obligations. With no debt relief arranged, arrearages to all creditors are mounting at the rate of \$800 million per month. The Poles are likely to request a moratorium on nearly all of their debt service and choose to pay those creditors most likely to declare default or to extend credits. In practice this means that highest priority will be the payments of some \$2.5 billion in interest due to private banks.

The Poles and their private creditors can also be expected to press governments to open negotiations for debt relief on guaranteed 1982 obligations or at least to ask official creditors not to declare default. As long as nearly all Western government credits remain blocked by sanctions, Warsaw will not be able to repeat the 1981 tactic of using commodity credits guaranteed by Western governments to cover debt service. Instead of using these credits to increase imports and run a sizable trade deficit, the Poles last year opted for nearly balanced trade and diverted funds to pay interest. The Poles' recent announcement that they plan a \$500 million trade surplus for the first half of this year indicates that Warsaw has chosen to sacrifice imports in order to pay at least some debt service.

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