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**Collection:** Executive Secretariat, NSC: Country  
File: Records, 1981-1985

**Folder Title:** Soviet Bloc Economic and Financial  
Situation Update: (07/23/1982-07/30/1982)

**Box:** RAC Box 20

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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** EXECUTIVE SECRETARIAT, NSC: COUNTRY FILE

**Withdrawer**

KDB 9/4/2015

**File Folder** SOVIET BLOC ECONOMIC AND FINANCIAL SITUATION  
UPDATES (07/23/1982-07/30/1982)

**FOIA**

F03-002/5

**Box Number** 20

SKINNER

132

ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169237	MEMO	W. MARTIN THROUGH N. BAILEY TO W. CLARK: SOVIET BLOC FINANCIAL AND ECONOMIC SITUATION UPDATE #33	3	7/30/1982	B1
169238	REPORT	RE USSR ECONOMIC PERFORMANCE (PAGE 7 ONLY) <b>PAR 10/11/2010 CREST NLR-748-20-3-2-0</b>	1	7/26/1982	B1
169239	REPORT	INTERNATIONAL ECONOMIC AND ENERGY WEEKLY, 07/23/1982 <b>R 1/13/2012 CREST NLR-748-20-3-3-9</b>	2	7/23/1982	B1
169240	REPORT	SOVIET TRENDS: JUNE 1982	2	7/27/1982	B1
169241	REPORT	EXCERPT FROM NID OF 7/22/82 <b>PAR 10/11/2010 CREST NLR-748-20-3-5-7</b>	1	7/22/1982	B1
169242	CABLE		3	7/27/1982	B1

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

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169243	CABLE	2	7/23/1982	B1
169244	CABLE	2	7/28/1982	B1
169245	MEMO W. MARTIN THROUGH N. BAILEY TO W. CLARK: SOVIET BLOC FINANCIAL AND ECONOMIC SITUATION UPDATE #32	3	7/23/1982	B1
169246	REPORT RE USSR/PIPELINE (PAGE 14 ONLY) <b>PAR 10/11/2010 CREST NLR-748-20-3-7-5</b>	1	7/16/1982	B1
169247	REPORT RE WESTERN EUROPE-USSR (PAGE 5 ONLY) <b>PAR 10/11/2010 CREST NLR-748-20-3-8-4</b>	1	7/23/1982	B1
169248	REPORT RE EASTERN EUROPE (PAGE 3 ONLY) <b>R 1/13/2012 CREST NLR-748-20-3-9-3</b>	1	ND	B1
169249	REPORT RE USSR GRAIN CROP (PAGE 6 ONLY)	1	7/23/1982	B1

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ID Doc Type	Document Description	No of Pages	Doc Date	Restrictions
169250 CABLE	BELGRADE 5812	1	7/22/1982	B1
169251 CABLE	BELGRADE 5590	2	7/15/1982	B1
169252 CABLE		2	7/16/1982	B1
169253 CABLE	BELGRADE 5572	2	7/15/1982	B1
169254 REPORT	RE ANGOLA-USSR (PAGE 10 ONLY)	1	7/20/1982	B1

**PAR 10/11/2010 CREST NLR-748-20-3-14-7**

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National Security Council  
The White House

284

RECEIVED

Package # 5445

82 JUL 30 P 2: 09

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	_____	_____	_____
Bud McFarlane	<u>1</u>	<u>m</u>	_____
Jacque Hill	<u>2</u>	_____	_____
Judge Clark	<u>3</u>	✓	_____
John Poindexter	_____	_____	_____
Staff Secretary	_____	_____	_____
Sit Room	_____	_____	_____

I-Information A-Action R-Retain D-Dispatch N-No further Action

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A

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A

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25X1

169238

USSR: Economic Performance at Midyear

*Official statistics released last week for the first half of the year indicate industrial growth continues to be slower in 1982 than in 1981, with absolute declines in production recorded in several key sectors. (C)*

Industrial production, according to official statistics, rose by only 2.7 percent from the corresponding period in 1981. This is less than the officially reported 3.4-percent increase in 1981 and even farther below the 4.7-percent target for 1982. When adjusted to remove inflationary elements in the Soviet calculations, the rise in industrial production this year is running below 2 percent. (C)

Output of several important producer goods, including steel, paper, cement, and a number of machinery categories, has fallen below levels of 1981. Declines also were reported for several manufactured consumer goods and for meat output. Energy fared better, with output of gas, oil, coal, and electric power higher than last year. (C)

Comment: The slowdown in industrial production was in large measure a reflection of a continuing decrease in the growth of labor productivity. With the quest for efficiency foundering, and another poor harvest in prospect, the outlook for halting the slowdown in industry over the balance of 1982 is bleak. (C) -CIA, NSA-



26 July 1982

25X

CONFIDENTIAL

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NLR/CRS  
BY *CS*  
NARA DATE *1/13/12*



7

B

169239 B  
(1082)

**International  
Economic & Energy  
Weekly (U)**

23 July 1982

**Perspective**

***USSR: The Grain Problem (U)***

The USSR will harvest its fourth consecutive poor grain crop in 1982, perpetuating the heavy outlays for Western grain and livestock products that have helped to offset Soviet harvest failures. The contribution of imports to the supply of farm products has more than doubled since 1978—rising from 5 percent to over 12 percent last year. These imports have included over 100 million tons of grain and about 2.5 million tons of meat and have cost about \$26 billion in hard currency expenditures alone.

Although such imports have kept the per capita availability of meat from falling, the burden on Soviet hard currency resources is clearly rising. Soft world prices for oil and gold are limiting hard currency revenues while import bills are increasing. To hold down its financial outlays, Moscow has been seeking short-term financing for grain purchases and, more recently, rolling over existing credit whenever possible. In addition, the Soviets have slackened grain purchasing activity since mid-April, perhaps opting to bide their time and let the market soften in the face of projected near-record grain crops in the West. Moscow also may wish to avoid displaying a heavy demand for Western—particularly US—grain at a time when the industrialized West is trying to find a common ground on East-West trade and credit policy. As a result, grain deliveries to the USSR have fallen from a high of 4.9 million tons in May to below 3 million tons per month in June and July.

Moscow will have to reenter the grain market soon, however, if it expects to import as much or more than last year and avoid serious damage to livestock herds. With domestic crop prospects worsening by the day, Moscow will be under great pressure to start buying more Western grain. We believe the Soviets—having turned in an improved trade performance in first-quarter 1982—have the hard currency assets to resume grain purchases immediately.

The longer the Soviets delay additional purchases of Western grain the greater the risk of overloading transport facilities during late summer and early fall when domestic crops must be moved to storage and oil sent to ports for export. In addition, Brezhnev's political commitment to improve the Soviet diet will increase the pressure to renew purchasing. In his speech at the unveiling of the much-touted food program last May, the Soviet leader pledged an improved food supply in 1982. With another poor grain harvest this year, however, per capita meat supplies will fall slightly even with record imports of grain and meat.

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NLRR <sup>OFEST</sup> NLR 749-20339

BY CN NARA DATE 1/13/12

As a result, the credibility and momentum of the food program is now in jeopardy. By committing itself so heavily to this new program in what is surely the last phase of Brezhnev's tenure, the leadership has all but guaranteed that the fate of the food program will be an issue in the succession struggle. In addition to the embarrassment and political risk associated with a significant fall in quality food supply during the first year of the program's implementation, the regime must worry about repercussions in other sectors of the economy. It is well aware that shortages of food and other desired consumer goods contribute to worker malaise, an outcome particularly unwelcome at a time when economic growth depends on a rebound in labor productivity.

*~~This article is Confidential.~~*

12

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169240	REPORT  SOVIET TRENDS: JUNE 1982	2	7/27/1982	B1

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13

169241

Excerpt from NID of July 22, 1982

25X1



**EASTERN EUROPE: Declining Debt to Western Banks**

Newly released data from the Bank for International Settlements show Eastern Europe's liabilities to Western banks fell by \$4.2 billion in the first quarter of 1982. To repay the banks, the East Europeans, including the Yugoslavs, drew down their foreign exchange reserves by \$2 billion, sold gold, and slashed imports from the West by nearly 20 percent, as compared with the first quarter of 1981. East Germany lost \$1.2 billion in credits and \$600 million in reserves, and Hungary's liabilities fell by \$900 million and its assets by \$400 million. (C)

Comment: The decision of Western bankers to reduce their exposure probably forced East European countries to pay off at least 50 percent of liabilities maturing between January and March. These cutbacks in credit have already brought Hungary to the brink of insolvency. Although East Germany still has substantial hard currency assets, continuing problems in refinancing maturing credits could jeopardize East Berlin's financial position in the next few months. (C)

25X1



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*Crot*

BY *CU*

NARA DATE

*1/13/12*

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14

D

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18

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NSC/S PROFILE

*S/cw*

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OF CLASSIFIED ENCLOSURE(S)

ID 8205445

*9/4/82 EDB*

RECEIVED 30 JUL 82 1

TO CLARK

FROM MARTIN

DOCDATE 20 JUL 82 *24*

BAILEY

20 JUL 82

KEYWORDS: EAST WEST ECONOMICS USSR  
INTL TRADE

SUBJECT: SOVIET BLOC FINANCIAL & ECONOMIC SITUATION UPDATE #33

-----  
ACTION: FOR INFORMATION DUE: STATUS IX FILES

FOR ACTION  
CLARK

FOR CONCURRENCE

FOR INFO  
REED  
RAYMOND  
BOVERIE  
NAU  
DOBRIANSKY

COMMENTS

REF# LOG *820* NSCIFID ( R / )

ACTION OFFICER (S)	ASSIGNED	ACTION REQUIRED	DUE	COPIES TO
	<i>C s/</i>	<i>Noted by Clark</i>		<i>Barley</i>

DISPATCH \_\_\_\_\_ W/ATTCH FILE *Pa* (C)

National Security Council  
The White House

275

25

Package # 5266

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82 JUL 23 P 5: 56

	SEQUENCE TO	HAS SEEN	ACTION
John Poindexter	<u>1</u>	<input checked="" type="checkbox"/>	
Bud McFarlane			
Jacque Hill	<u>2</u>	<input checked="" type="checkbox"/>	
Judge Clark	<u>3</u>	<input checked="" type="checkbox"/>	<u>I</u>
John Poindexter			
Staff Secretary			
Sit Room	<u>4</u>		<u>A7</u>

I-Information

A-Action R-Retain D-Dispatch N-No further Action

DISTRIBUTION

cc: VP Meese Baker Deaver Other \_\_\_\_\_

COMMENTS

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29

A

BACKUP FOR  
# 5266



30

~~Top Secret~~

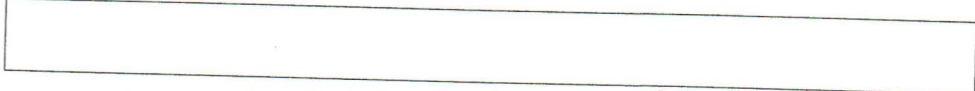
25X1

169246

SPECIAL ANALYSIS

25X1

USSR: Weighing Pipeline Options



*Moscow is claiming it is prepared to complete the export pipeline without Western turbines, but the Soviets continue to urge West European contractors to supply turbines with rotor sets designed or manufactured by General Electric. At the same time, they still can deal with a firm with no US ties or produce their own turbines, possibly with West European assistance. (S NF NC PR OC)*

The Soviets reportedly told West European contractors in Moscow on 6 July that they expect them to honor existing agreements to deliver 25-megawatt turbines equipped with GE rotors or face a penalty for nonfulfillment. The suppliers were given until early August to determine whether they can begin to meet the existing contracts using the 20 to 25 GE-produced rotors delivered to Western Europe before the US imposed sanctions in December 1981. In its propaganda, the USSR is stressing its determination to meet deadlines for deliveries of natural gas--with Soviet-built turbines if necessary. (S)

West European Turbines

If there is no relaxation of the US embargo, Moscow probably would prefer to acquire the GE-designed rotors manufactured by the French Alsthom-Atlantique firm for the other 100 25-megawatt turbines planned for use on the pipeline. The additional costs of financing the expansion of the firm's production facilities would not deter the Soviets. They will be likely to do all they can to persuade West European contractors to ship complete turbines with French-built rotors in violation of US restrictions. (C)

The Soviets could still try to get the turbines from a Western manufacturer that does not rely on US technology. Such a firm probably would not have the capacity to produce all the turbines required, but it might subcontract with other firms now under contract to supply GE-designed turbines. (S)

--continued

25X1

~~Top Secret~~

16 July 1982

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NLR/Crest  
BY CW NARA DATE 1/13/12

~~Top Secret~~  
~~RUFF UMBRA~~

169247

WESTERN EUROPE - USSR: Pipeline Developments

The French Government's announcement yesterday ordering French companies to fulfill all existing contracts with the USSR is the first direct attempt by the West Europeans to circumvent US pipeline sanctions. (S NF)

25X1

25X1

Comment: The French move- [redacted] to fulfill its contract of November 1981 to supply 40 sets of turbine rotors manufactured under license [redacted]-may encourage other West European governments to defy the sanctions. The West Europeans may have, in fact, coordinated their efforts to some degree already. (S NF)

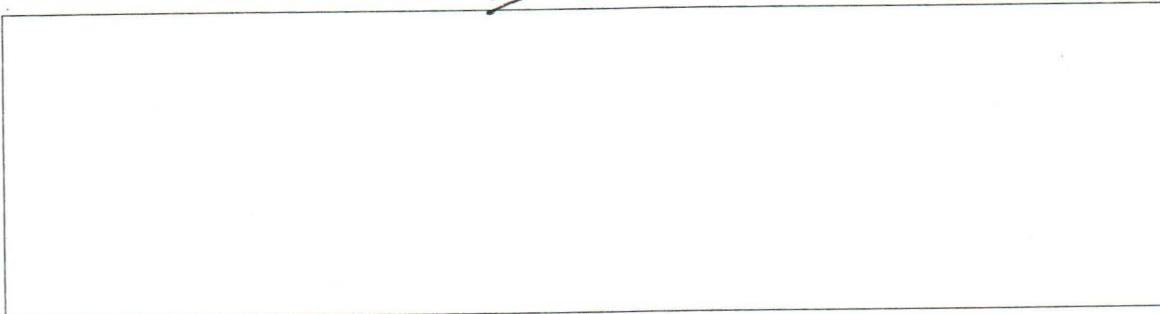
25X1

25X1

The decision by France marks a major breakthrough for the USSR in its efforts to circumvent the US sanctions. Delivery of the 40 [redacted] rotors, which probably were intended originally as spares for the 120 rotors to be built [redacted] could enable the three West European turbine builders to meet their initial delivery obligations to the Soviets. (S NF)

25X1

25X1



If the West Europeans now decide to build and ship the turbines, Moscow would have half of the 120 25-megawatt turbines planned for the pipeline. Installing just these turbines would allow operation of the pipeline at around 90 percent of capacity. Deliveries then could total about 28 billion cubic meters annually; current contracts total only 22 billion cubic meters annually. (S NF)

25X1

To acquire the remaining 60 or so turbines planned for the pipeline, the Soviets could contract to purchase the needed rotors [redacted] the only company holding a license to produce the [redacted] rotors. They also could produce turbines of their own design, possibly with manufacturing assistance from West European firms. (S NF) -CIA, DIA, NSA-

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3. EASTERN EUROPE: CREDITOR CAUTION ADDS TO FINANCIAL PRESSURES

Western banks have greatly curtailed lending to Eastern Europe and have reduced their overall exposure in the region. Some are now reluctant to lend even with official guarantees. Hungary and Yugoslavia face severe payments problems in coming months and could join Poland and Romania in seeking debt relief. 169248

\* \* \*

The intractability of Poland's debt problems and heightened East-West tensions are the principal reasons for the caution exhibited by the banks. The region's poor economic prospects--growth has slowed markedly--add to the nervousness of lenders. Romania's bid for rescheduling hardened bankers' attitudes.

Poland has yet to pay any of the \$9.2 billion that it owes to commercial and official creditors this year. Consequently, its request for new short-term trade credits has become a key element in the rescheduling talks it began with the banks last week. In addition, Romania wants to reschedule roughly half (about \$2.5 billion) of its 1982 hard currency obligations. Paris Club talks with official creditors are nearing agreement, but negotiations with the banks may last until this fall. Both Poland and Romania are now trading largely on a cash or barter basis and have few credit lines available.

Hungary has been cut off from Euroloans, its traditional source of financing, since May 1981. Efforts to arrange \$200-300 million in medium-term credits and an additional short-term loan through the Bank for International Settlements have dragged on. Budapest claims it has drastically drawn down reserves to meet its hard currency obligations through mid-year.

Having failed to secure sufficient financing to meet its needs this year, Yugoslavia faces similar problems. A bid for more than \$200 million in medium-term credits from Western banks has languished since last October. Because of disappointing exports during the first half of the year, Belgrade faces a repeat of the payments squeeze which occurred in March unless it can obtain new loans. The GDR is in a similar bind; an extended credit drought would seriously impair its payments situation.

A prolonged stall in Poland's rescheduling talks will increase the risk that some banks may declare formal default. The abrupt cutoff of lending to Eastern Europe that probably would ensue could force additional reschedulings or, worse yet, further default declarations. This would severely strain the international financial system. However, central banks almost certainly would provide a safety net to prevent a chain reaction of bank failures in the West.

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USSR: Status of Grain Crop

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*The grain crop in the USSR this year probably will amount to only about 165 million tons, and it could be considerably lower. (e)*

Drought and hot, dry winds in mid-June in the main spring wheat belt substantially reduced potential yields of both winter and spring grains. A more intensive drought in the first two weeks of July hit when grain kernels were forming. (C)

Comment: Another bout of hot, dry weather in the spring grain areas or a prolonged harvest in the European USSR--which could subject late-sown spring grain to early, killing frosts--could result in a crop far smaller than the unofficially reported 158-million-ton harvest in 1981. (C)

Moscow's long-range plans to become less dependent on grain imports from the West have been thwarted again. Regardless of the actual harvest, the USSR this year may import as much as 50 million tons of grain--somewhat above the record level in 1981 of 46 million tons. With bumper harvests and record grain stocks in key exporting countries, the Soviets will have little difficulty lining up these imports. (C)

The USSR is likely to obtain some grain from the US. If Moscow decides to avoid the US market, however, nearly the entire amount probably could be obtained from other major exporters--especially Canada, Argentina, Australia, and the EC countries--if it is willing to pay a premium to obtain grain scheduled for other countries. (e)

A fourth consecutive poor grain crop and the resulting lackluster overall agricultural performance jeopardize President Brezhnev's promise last May of an improved food supply in 1982. Even with heavy grain imports, a 165-million-ton crop would leave the USSR far short of the quantities of grain required to meet domestic needs. (e)

The crucial shortage of livestock feed could be eased by a reduction of grain directed to food and industrial uses. Nonetheless, some distress slaughter, primarily of hogs, would be necessary to alleviate the shortage. Even with this additional meat available, meat production this year would fall below the level in 1981 of 15.2 million tons. (e) -CIA, DIA, NSA-

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37

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169254

ANGOLA-USSR: Financial Relations Strained

Angola has asked the USSR for a meeting to discuss debt rescheduling and ways to put into effect contracts that the Soviets are holding up for lack of payments. An Angolan note to the Soviet Foreign Trade Minister asserts the situation is urgent because some of the contracts are for military goods. Angolan exports, including oil from Cabinda, reportedly no longer cover both the cost of military purchases and the needs of the deteriorating civilian economy. There have been five Soviet arms deliveries to Angola so far this year. (S M NF REL UK CAN WN)

Comment: Moscow may agree to debt rescheduling, but it probably will not make other financial concessions. The Soviets will not be too rigid on payments because to do so might encourage the Angolan Government to push the South-West Africa People's Organization into accepting a settlement on Namibia. Such a move might reduce Angola's need for military aid. (S M) -CIA, DIA, NSA-

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