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**THE ECONOMIC SITUATION IN
EASTERN EUROPE**

TABLES AND GRAPHS

RECENT DEVELOPMENTS

Soviet Union - Perestroika has yet to yield positive results. The rate of growth in net material product is estimated for 1989 at 2.5%, much below planned targets (4.5%). Investment is weak : although capital expenditure was up by 3%, commissioning of new capacity fell by 0.8%. The money-supply situation is also worsening. By mid-1989, money in circulation was one-third more than in the same period last year, but retail turnover hardly increased at all. Consequently, savings expanded by Rb 17.7 billion (6%). Growth in the national economy is going to slow down for the next few years, with GNP growth moving below 2%. However, by the mid-1990s growth rates should start to recover as more dynamic sectors start to make some impact on the economy.

Poland - Poland's economic situation deteriorated in 1989, with industrial production constant compared to 1988. Inflation accelerated, as earnings continued to grow faster than prices. Thus, the gap between earnings and prices increased 17.8% in the first quarter and by a further 33.3% in the second quarter. The end-1989 agreement with the IMF promises an effective stabilisation programme for 1990. However, output will continue to stagnate in socialised industry for a number of years, while it increases in agriculture as demonopolisation makes itself felt over the longer term. The urban private sector could also expand. Also on the positive side, Poland's gross hard-currency debt has stabilized at about \$ 40 billion.

Hungary - The Hungarian economy took a noticeable downturn in 1989 : while an estimate of NMP growth is not available, growth was probably negative or very close to zero. Inflation continued to accelerate to about 20% yearly. Moreover, wages grew faster than prices, raising the prospect of a wage-price spiral this year. There were signs of potential social conflict in August when approximately 1 million workers stopped work temporarily to protest against rising meat prices; however, price ceilings were the cause of the country's meat shortages throughout the summer. Hungary's policy decisions have thus focused on obtaining or retaining the confidence of Western governments and investors. Also important, however, are various restrictive measures adopted to control short-term macroeconomic indicators such as the balance of payments and budget deficits, in order to satisfy IMF conditions for continued standby credits.

Czechoslovakia - Growth in national income of less than 2.0% in 1989 was significantly lower than in 1988. Slow growth in the economy caused consumer goods shortages, which in turn are beginning to be reflected in higher prices of selected goods. Economic stagnation was at least

partially due to attempts to restructure industry away from energy and material-intensive sectors during this period. Foreign trade performance, on the other hand, continued to be strong, with non-socialist exports in particular growing by 17.4% in the first half of 1989. Continued neglect of investment in production capacity, combined with limited prospects for improving energy supplies in the near future, will cause further deceleration of growth in national income and industrial production in the early 1990s, with average annual GDP growth likely to be about 1.5%.

GDR - The continued decline in growth in production is due to deep structural problems such as neglect of investment and overspending on housing construction and price subsidies. Reported NMP growth for the first half of 1989 was the lowest since the early 1980s; slower growth is also causing more serious shortages of consumer goods than in previous years. Open inflation is not a problem but repressed price pressure (because of shortages) is noticeable. The country has no significant external debt.

Romania - Official sources claimed that industrial output grew by "more than 6%" in the first six months of 1989 and that "significant" growth in output had been achieved in a number of products. "Significant" growth rates were also claimed for goods that feature prominently among Romanian exports to the West: but we know that such exports (most notably of agricultural goods) were made possible by repressed consumption at home. Romanian liabilities to BIS banks stood at \$334 million at the end of March 1989. However, Romanian assets in BIS banks stood at \$202 million resulting in net assets of \$168 million, compared with an external debt of \$12 billion in 1983.

Bulgaria - The Bulgarian plan fulfilment report for the first six months of 1989 claims that industrial output grew by 2.6% compared with the same period a year earlier. A growth in labour productivity of 9.1% was claimed to be primarily responsible for the outcome. Officially, agricultural output was little different from the same time in 1988, despite the migration of many Bulgarian Muslims to Turkey, although there have been reports of difficulties with some harvests.

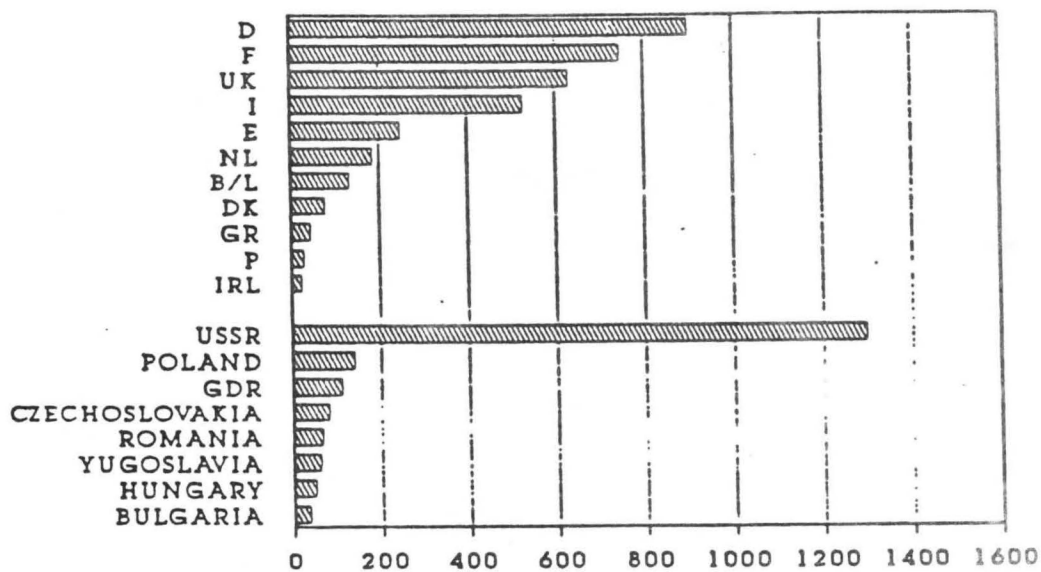
TABLE - BASIC ECONOMIC DATA

	Poland	Yugoslav.	GDR	Czech.	Hungary	Bulgaria	Romania	USSR
Population (mios)	37.7	23.4	16.9	15.8	10.6	9.0	23.1	287.2
GDP (1980 US\$ bn), of which:agriculture	145.9 13.0	61.0 11.5	114.1 11.0	82.5 7.6	49.9 10.4	37.0 12.5	67.2 15.0	1361.3 20.6
GDP/head (1980 US\$'000)	3.9	2.6	6.8	5.2	4.7	4.1	2.9	4.7
Investment rate	5.0	-3.8	6.0	1.4	3.0	14.4	-2.5	3.3
Exports (bn US\$)	7.4	9.5	9.3	5.2	5.9	2.7	6.4	39.9
Imports (bn US\$)	6.1	9.9	8.8	5.4	5.3	3.9	4.2	35.7
Net external debt (bn US \$)	35.6	17.7	10.0	4.0	15.4	5.5	2.8	30.5
as % of GDP	24.4	29.0	8.8	4.9	30.9	14.9	4.2	2.2
Debt as % of export to non-soc countries	465.7	185.4	109.1	77.0	262.5	207.4	42.4	92.4

GRAPH 1

GDP by Country

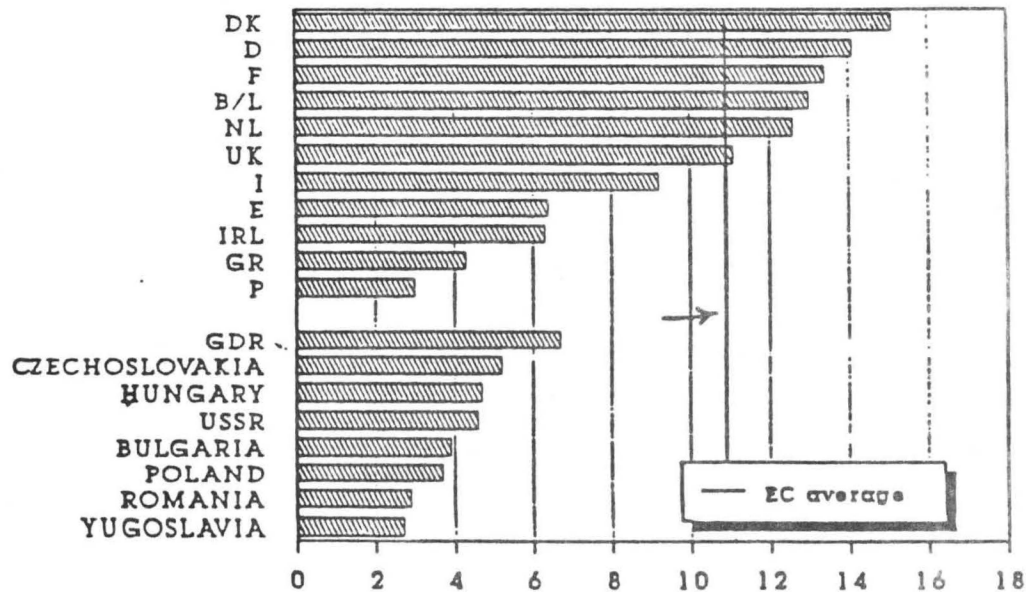
(bn. US \$, 1980 prices and exch. rates)



GRAPH 2

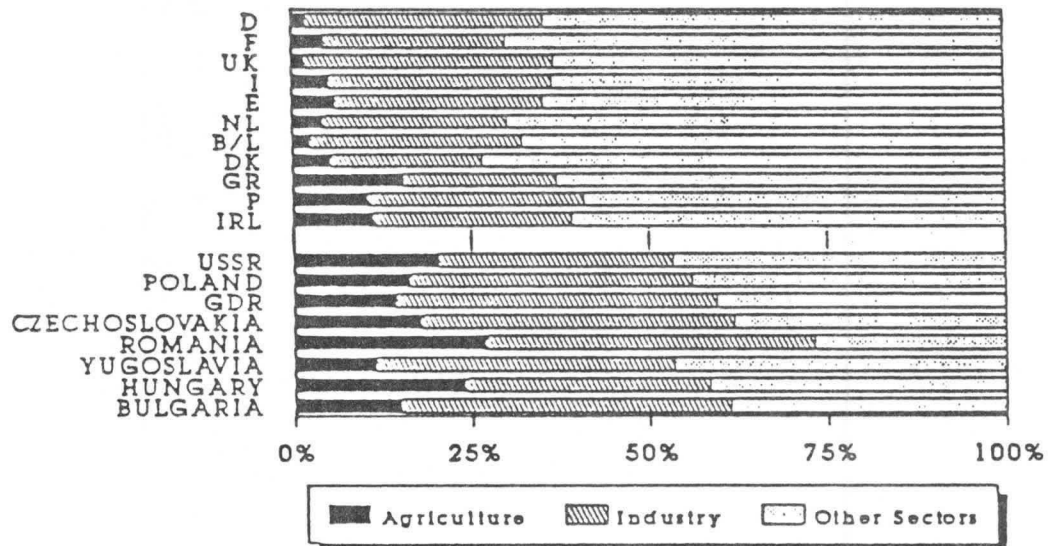
Per capita GDP

(volumes, '000 US \$, 1980 prices)



GRAPH 3

Real GDP by Sector
(1980 prices and exchange rates)



GRAPH 4

Net external debt

