E/1979/62/Rev.1
ST/ESA/96

Department of International Economic and Social Affairs

WORLD ECONOMIC SURVEY, 1978

UNITED NATIONS
New York, 1980

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E/1979/62/Rev 1
ST/ESA/96

UNITED NATIONS PUBLICATION

Sales No. E.80.II.C.1

Price: $U.S. 10.00
(or equivalent in other currencies)

PREFACE

Each year, in accordance with General Assembly resolution 118 (II), the Economic and Social Council holds a general discussion at its second regular session on international economic and social policy. In the general discussion, as specified by the Assembly, the Council considers "a survey of current world economic conditions and trends ... in the light of its responsibility under Article 55 of the Charter to promote the solution of international economic problems, higher standards of living, full employment and conditions of economic and social progress and development". World Economic Survey, 1978 has been prepared to assist the Council in its deliberations at the second regular session in July 1979.

The Survey consists of four chapters. The first provides an overview of salient developments in the world economy in 1978 and the outlook for 1979. It draws attention in particular to changes in international policies needed to improve the pace of development in the developing countries. The three chapters that follow examine the developing economies, the developed market economies and the centrally planned economies.

The Survey has been prepared by the Centre for Development Planning, Projections and Policies of the Department of International Economic and Social Affairs of the United Nations Secretariat and is based on information available to the Secretariat in April 1979.

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Explanatory notes

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported.

A dash (-) indicates that the amount is nil or negligible.

A blank in a table indicates that the item is not applicable.

A minus sign (-) indicates a deficit or decrease, except as indicated.

A full stop (.) is used to indicate decimals.

A slash (/) indicates a crop year or financial year, e.g. 1970/71.

Use of a hyphen (-) between dates representing years, e.g., 1971-1973, signifies the full period involved, including the beginning and end years.

Reference to "tons" indicates metric tons, and to "dollars" ($) United States dollars, unless otherwise stated.

Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Details and percentages in tables do not necessarily add to totals, because of rounding.

The following abbreviations have been used:

CMEA	Council for Mutual Economic Assistance
DAC	Development Assistance Committee [OECD]
FAO	Food and Agriculture Organization of the United Nations
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
LINK	International Research Group of Econometric Model Builders
NMP	net material product
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OPEC	Organization of Petroleum Exporting Countries
SDR	special drawing rights
UNCTAD	United Nations Conference on Trade and Development

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

The term "country" as used in the text of this report also refers, as appropriate, to territories or areas.

The designation "developed" and "developing" economies in the text and the tables is intended for statisticsl convenience and does not necessarily express a judgement about the stage reached by a particular country or area in the development process.

Chapter I

SALIENT FEATURES OF THE CURRENT WORLD ECONOMIC SITUATION

Summary

The pace of world economic activity weakened in 1978. In the developing countries, in particular, the trend towards lower rates of growth in output observed since 1975 was accentuated. To some extent, the slow-down in those countries was due to sluggish export earnings. The developed market economies continued to grapple with the problems of insufficient recovery in productive investment and the policy dilemma posed by the coexistence of high inflation and slow growth. In the centrally planned economies, growth was restrained by external imbalances and international bottle-necks, especially in the energy and transport sectors.

The non-oil-exporting developing countries had to make substantial adjustments in their external accounts in 1976-1977, a process which was to some extent reversed in 1978. In relation to export earnings or gross domestic product, the collective trade and current accounts deficits of those countries shrunk considerably during 1976 and 1977 to levels lower than those in the early 1970s. While a number of variables were at work during this period, high and growing international inflation tended to compress the magnitude of the real balance-of-payments deficits in many countries. Certain financial flows which are subject to political decision - in particular, official development assistance (ODA) and long-term flows from multilateral institutions - have tended to lag behind the expansion of other types of flows, with the result that some countries have had difficulties in meeting their financial requirements. On the one hand, the lower-income countries, which have limited or no access to private capital markets, have had to undergo a drastic process of adjustment. On the other hand, in those countries with access to private capital markets, the composition of flows has shifted sharply in favour of short- and medium-term bank financing. Uncertainties as to the availability of financing in the future has made many countries cautious in the management of their external payments. As a result, import growth has been generally restrained.

The pace of world economic activity is not expected to accelerate during 1979. The export outlook is not likely to improve, and there are no indications that protectionism will be eased. The non-oil-exporting developing countries are likely to experience intensified pressures on their external accounts. As in the recent past, the lower-income countries, and perhaps also some countries which have already accumulated large external debts and may encounter difficulties in increasing their borrowing, are likely to be affected most adversely by these developments. In the absence of policy changes affecting the availability and kinds of external financing, the growth of output in the non-oil-exporting developing countries is likely to be even more unstatisfactory than in 1978.

In the developed market economies, growth rates are widely expected to slow down, largely as a consequence of substantial deceleration in the United States of America and no further acceleration elsewhere; and inflation is already rising in

several countries. In the centrally planned economies, the stress is being placed on efficiency improvements and consolidation rather than on accelerated growth, and planned growth rates for 1979 are only slightly higher than those achieved in 1978.

The analysis of the current world economic situation and of the prospects for 1979 has a number of policy implications. The combination of price instability in primary commodities and international inflation further complicates the management of the balance of payments in developing countries. It is crucial to have an early implementation of recently agreed-upon policies to stabilize primary commodities and to devise ways by which the flows of external financing subject to political decision may be planned in real terms.

Substantial increases in ODA and long-term non-concessional flows and improved acces to longer-term balance-of-payments financing will be required if developing countries, particularly lower-income countries, are to avoid a further slow-down in their already unsatisfactory growth rates. These improvements in the system of international financial co-operation would also make a contribution to greater external balance in the world economy at higher rates of growth of output.

In the developed market economies further efforts are needed to reduce inflation and payments imbalances without jeopardizing real growth. Indeed, in order to counteract existing recessionary tendencies, stimulatory measures are appropriate. However, in the present inflationary environment, the policy package should contemplate innovative income policies and should focus also on increasing over-all productivity. In this latter regard, short-term policy needs merge with the medium-term requirements for progressive adjustments towards a more efficient and productive international structure of production, one in which the potential of developing countries in particular may be fully realized.

Current trends in the world economy

In 1978 the pace of economic activity weakened in the world as a whole (see table I-1). 1/ In 1977, output had also grown at a lower rate as compared with the preceding year. The world economy has thus experienced two excessive years of deceleration in the rate of growth of output, and the likelihood is that this pattern will be repeated in 1979.

Among developing countries, there was another extension in 1978 of the slower growth that those countries have been experiencing since 1975. Among developed market economies, the rate of expansion experienced in 1978 was in line with the slower advance in output recorded during most of the 1970s. Among centrally planned economies, there appears to have been a deceleration of growth in 1978; and this follows upon some slowing in the rate of expansion in the preceding year. Among developing countries, a salient feature of 1978 was the striking deceleration in the growth of total output of the oil-exporting countries; this reflected declines in petroleum output that were only partially offset by advances in other

1/ For further regional detail on agricultural production, see table I-2.

components of economic activity. Other developing countries continued to grow at the slower rhythm which they have been experiencing since 1975. This mediocre performance occurred despite the good results obtained in food production. Although crops were not satisfactory in certain parts of Africa, they were unusually good in other parts of the developing world, and in the aggregate, food production increased by more than total population.

The developed market economies continued to be characterized by slow growth. The failure of private fixed investment to pick up in line with historical experience during comparable phases of recovery from recession accounts in large part, for the weakness in the rate of expansion. The policy dilemma posed by the need to deal simultaneously with sluggish growth and rapid price inflation did not diminish during the year, and both inflation and unemployment remained at comparatively high levels.

Among the centrally planned economies, the growth of net material product fell short of planned magnitudes in all countries other than the Union of Soviet Socialist Republics; the main constraints appear to have been external imbalances and internal bottle-necks, especially in the energy and transport sectors. A number of medium-term trends also made their presence felt in 1978. These included a slowing down in the rate of growth of the labour force and a tendency for the capital intensity of production to increase.

The evolution of world trade in 1978 reinforced the tendency towards weaker economic performance of the world economy (see tables I-3 and I-4). In particular, the sluggishness in the rate of advance of domestic demand in the developed market countries impeded a more rapid advance in the export earnings of the developing countries. However, some developing countries were able to benefit, to a modest degree, from vigorous advances in domestic demand occurring in some parts of the developing world itself, and in particular in oil-exporting developing countries. While the number of developing countries able to provide the goods and services required by oil-exporting countries is at present limited, the countries in a position to supply those markets experienced a sharp rise in the demand for their exports.

Export earnings of the developing world in 1978 also continue to be adversely affected by protectionist measures in the developed countries. While 1978 was by and large a year in which no major new policy initiatives were taken, the implementation of policies previously adopted 2/ resulted in some intensification of the trade restrictions facing developing countries, particularly as regards textiles. These barriers have imposed considerable cost on developing countries. 3/

2/ For a detailed review of these measures and the issues they raise, see World Economic Survey, 1977 (United Nations publication, Sales No. E.78.II.C.1), chap. II, "The danger of protectionism".

3/ By way of example, a recent estimate by the IMF staff has put the annual loss of export earnings of the Republic of Korea as high as $1 billion in 1977, as a result of protectionist actions taken by developed market economies, for the most part since 1974. See International Monetary Fund, The Rise in Protectionism, Pamphlet Series No. 24 (Washington, D.C., 1978).

If pressures for protection did not appear to change significantly in 1978, there were none the less a number of disquieting factors. In the first place, new techniques of restricting imports were introduced in the form of restraints that automatically vary according to the unit costs of the producer. Although this technique has not yet been applied to commodities of particular interest to developing countries, it poses particular dangers to those countries for which low unit cost is frequently the main source of their ability to compete. Secondly, the absence of any concerted effort on the part of the developed market economies to address the issue of how to adapt their domestic economies to competition from developing countries indicates that pressures for protection are unlikely to diminish. 4/ Finally, the failure of the recently concluded multilateral trade negotiations to include a code on safeguard mechanisms poses dangers for developing countries.

The operation of international commodity markets had disparate effects on the export earnings of developing countries in 1978. Tropical beverages suffered sharp declines in price in the latter part of 1977 and the first three quarters of 1978. Countries dependent on the export of beverages saw their external earnings weaken sharply as a result of these price movements, and this weakness was accentuated in those instances in which sugar, whose price declined further in 1978, was also an important export commodity. On the other hand, exporters of ores and metals found themselves in a quite different position. Towards mid-1978 prices of hard minerals firmed, and in early 1979 copper prices advanced sharply.

Taken together, the prices of primary commodities in 1978 stood 7 per cent below the level reached in 1977. 5/ This outcome, together with the continued rapid advance in the prices of traded manufacturers, contributed to both the deterioration in the terms of trade of developing countries that occurred in 1978 and the improvement in the terms of trade of developed market economies.

4/ A related issue arises from the intention of China to enter international markets on an expanded scale. Exports from China to developed market economies grew by nearly 25 per cent in 1978, due largely to higher sales of cotton textiles, clothing and other light manufactured goods. The capacity of China to supply goods traditionally exported by developing countries and the existence of trade restrictions on many of those goods underscore the importance of accommodating trade with China in a way that raises the value of world trade by the full amount of China's increased participation.

5/ Based on the UNCTAD price index for all primary commodities.

Shifts in payments balances and policy decisions regarding the management of external accounts also played an important role in 1978. A striking development during the year was the reduction in the current account surplus of oil-exporting countries, which fell to less than one half the level recorded in 1977. This swing resulted from the over-all decline in aggregate output and exports of petroleum of these countries, unchanged petroleum prices and a rapid advance in the prices and volume of imports. By contrast, the aggregate current account balance of developed market economies swung sharply into surplus in 1978. In large part, this was the mirror image of the change in the balance of the oil-exporting countries. In addition, the surplus of the developed market economies with the centrally planned economies rose sharply. The sharp change also reflected the improvement in the terms of trade of developed market economies, as mentioned previously and the restrictive economic policies adopted in a number of those countries.

The swing in the aggregate balance of developed market economies was compounded of differential movements within the group. The current balance of the United States changed little during 1978, while the surpluses of the Federal Republic of Germany and Japan increased substantially. This contributed to renewed weakness in the international value of the dollar during much of the year, a situation which necessitated the introduction of a concerted set of policy measures by the United States authorities in November. More importantly, however, the imbalances between the United States, on the one hand, and the Federal Republic of Germany and Japan, on the other, have given rise to policy decisions to slow the rate of advance of aggregate demand in the former country and to stimulate demand in the latter two countries. The net impact of these efforts during 1978 was unclear. By the end of the first quarter of 1979, however, concern over intensified upward pressures on prices seemed likely to tilt policies in the surplus countries towards restraint.

In addition to changes in the balances of oil-exporting countries, the sharp swing into surplus of the current account of developed market economies had as its counterpart a widening in the deficit of non-oil-exporting developing countries. The significance of this deterioration and the role played by changes in the external balance in sustaining the development process are explored in the following section.

Growth, inflation and the external balances of developing countries: selected issues

In 1978 export earnings grew by about 2.5 per cent for developing countries as a whole and by 10 per cent for non-oil-exporting developing countries. The prices of goods imported by developing countries rose by about 8 per cent. Thus, earned import capacity (the volume of imports which could be financed by export earnings) declined by more than 5 per cent in 1978, as compared with an advance of about 4 per cent in 1977. When non-oil-exporting developing countries are considered separately, their earned import capacity appears to have advanced by about 2 per cent in 1978, as compared with around 9 per cent in 1977.

Export earnings therefore did not provide a basis for the expansion in imports of goods and services that would be consistent with higher levels of economic activity, and any advance in import volume that was to occur had to be brought about through a deterioration in the trade balance. In response to pressures in this direction, the trade balance - i.e., merchandise trade on a custom basis - of developing countries moved from a surplus of $28 billion in 1977 to a deficit of $11 billion in 1978. When oil exporters are excluded from the calculation, the collective trade balance of the remaining developing countries moved from a deficit of $34 billion in 1977 to a deficit of $53 billion in 1978.

The widening of the trade deficit was a pervasive experience among the developing countries. Of 62 countries for which trade data are available, 52 experienced a deterioration in their trade balance. Thus 1978 was not a year of adjustment of trade balances in the usual sense of the word but rather a year in which the trade balance was used to insulate domestic economies from the full consequences of a slow-down in the growth of export earnings and the small advance in earned import capacity. For developing countries as a whole, the widening of the trade deficit allowed the volume of imports to expand, as compared with the significant decrease which would have occurred had the trade deficit remained unchanged. For the non-oil-exporting countries, the additional increment in the volume of imports permitted by the widening of the trade gap facilitated continued expansion in their domestic economies.

The volume of imports and growth in the domestic eonomies of developing countries are linked, since imported supplies invariably meet some part of domestic requirements for consumption goods, intermediate goods and capital goods. Thus, the pace at which domestic consumption and investment expenditure can expand is related to the availability of imported supplies. This affects not only the level of current economic activity but also the rate of capital formation and, as a consequence, the longer-term growth in productive capacity.

There is considerable evidence that the capacity to import has been a powerful influence on the growth performance of developing countries in recent years. Some evidence along these lines is presented in table I-5, which divides 70 non-oil-exporting developing countries into two groups, depending on whether the rate of growth in the volume of imports in 1973-1976 was greater or less than that experienced in 1965-1973. As may be seen from the table, the group of countries with the greater rates of increase in imports also recorded rates of growth of gross domestic product (GDP) and its major components that were higher in 1973-1976 than in the earlier period; an exception was manufacturing output, in which a relatively mild decrease in the average growth rate occurred. By contrast, the other group experienced declines in average rates of growth of GDP and its components in 1973-1976 as compared with the earlier period, except for agricultural output, where growth rates remained unchanged. Moreover, the growth of manufacturing output fell quite sharply for this group of countries.

To be sure, a large number of influences other than the availability of imports were at work in producing the results noted above. A particularly important factor was the varying proportion of non-essential imports in the total import bill and the ability of countries to take measures that could for a short period of time loosen the relationship between imports and growth. In addition, the relationship between import capacity and growth would be altered, in the short run, where countries had built up large stocks of imported goods which could subsequently be drawn upon. 6/

However, available evidence suggests that in certain important respects the capacity of countries to maintain some momentum in the domestic economy in the face of reduced import availabilities has been diminishing. Examination of data on imports and investment for 70 non-oil-exporting developing countries shows that investment was influenced very little by import availabilities in 1973-1974. The relationship between these two variables increased sharply in 1975, however, and became quite important in 1976. 7/ It can be expected that import capacity also had an important influence on levels of investment in more recent years. Thus the capacity of developing countries to react to declines or inadequate advances in earned import capacity by allowing the trade deficit to worsen plays a key role in insulating growth from the effects of pressures on external accounts.

The deterioration in the trade balance that occurred in 1978 was reflected in the current account balance, which, for non-oil-exporting developing countries, moved from a deficit of $22 billion in 1977 to a deficit of about $35 billion in 1978 (see table I-6). Measured in current dollars, the level of the deficit was greater than that experienced by the same countries in 1974 and was second in size only to the record deficit recorded in 1975. However, many of the increases in the current account deficits recorded by developing countries in recent years have been the result of world-wide price inflation, and this factor also played a role in 1978.

As capital importers, most developing countries incur deficits in their current accounts, and a general rise in the prices of traded goods leads to an enlargement in those deficits, even when the prices of exports rise at the same pace as those of imports. In order to abstract from the effects of such price changes awnd to provide a more meaningful basis for an aessessment of changes in its magnitude, the current account deficit may be expressed as a percentage of export earnings. Such calculations are shown for the non-oil-exporting developing countries in table I-6, and it may be seen that, when the current account deficit is measured in this way, there was a compression of the deficits that occurred in 1976 and 1977, and the compressions were quite severe. By 1977 the size of the deficit had been reduced to a level 60 per cent below that reached in 1975, and 40 per cent below the annual average of 1970-1972. The expansion of the current account deficit that occurred in 1978 still left the deficit, measured in terms of exports, 10 per cent below the levels experienced in 1970-1972.

Further light is thrown on the significance of the deficit by comparing it to the gross domestic product (GDP) of the deficit countries. Thus, table I-6 records changes in the ratio of the aggregate trade balance of non-oil-exporting developing

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6/ The most notable example of this was the case of Brazil in 1974. This phenomenon undoubtedly occurred in a number of other developing countries also.

7/ A statistical analysis for the 70 countries showed that the relationship between the percentage change in import volume and the percentage change in domestic investment (both measured as deviations from the trend) was weak in 1973 and 1974. In 1975 and 1976, however, this relationship became close (the value of the regression coefficient moved rapidly towartds 1, indicating that a given percentage shortfall in import volume was associated with a shortfall in investment of the same relative magnitude).

countries to the gross domestic product of those countries, when both are expressed in constant prices. Here again, it is evident that the size of the trade deficit in relation to gross domestic product after 1975 was well below that actually experienced in 1970-1972, the increase in the deficit in 1978 notwithstanding.

It is evident that the increases in the current account deficit, as measured in current dollars, which have occurred since 1973 mask rather significant and substantial reductions in the size of the deficit relative to other economic variables. The reduction of the current account deficit relative to export earnings indicates that countries have reduced the role of borrowing in meeting their import bill: by compressing imports and, as far as possible, expanding exports, they have been financing a larger proportion of imports through current export earnings. In other words, the relative role of the current account balance in augmenting resources available to the domestic economy has been greatly diminished. Both of these trends were partially reversed in 1978. None the less, the striking feature of the experience of the past several years - and one that does not readily emerge from examination of the data expressed in current values - is the magnitude of the shifts that have occurred. These shifts, in turn, have had evident costs in terms of imports forgone and growth possibilities unrealized.

The sharp adjustment of external accounts that occurred in non-oil-exporting developing countries in 1976 and 1977 reflected a variety of factors and individual country situations. However, the influence of price changes of internationally traded goods on external accounts has been pervasive, not only in accounting for changes in the nominal size of the deficit but also in reducing the capacity of many countries to deal with the deficit.

Changes in both absolute and relative prices of imports and exports of non-oil-exporting developing countries have given rise to a net increase in the external financing requirements of those countries of about $150 billion over the five years from 1974 to 1978. 8/ Roughly two thirds of this figure is accounted for by unfavourable changes in the terms of trade that occurred during the period. The remaining one third is the result of world inflation; it measures, in other words, the additional financing requirements that would have emerged even if there had been no deterioration in the terms of trade. Thus, even if the prices of the imports of non-oil-exporting countries had advanced at the same pace as the prices of their exports, more financial resources would have been needed to maintain the same volume of imports.

To a certain extent, the process of world inflation produces increases in the availability of financing at the same time that it produces increased demand for

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8/ Since price indicators for services traded internationally do not exist, this calculation has been arrived at by considering the trade balance alone. Strictly speaking, the $150 billion therefore represents only part of the requirement for external finance, since it excludes finance to cover net service payments.

It should also be noted that the figure has been calculated on the basis of the actual trade balance, measured in real terms, over this period. In the absence of the sharp adjustment of this balance that occurred in 1976 and 1977, mentioned above, the figure would have been considerably larger.

such financing. This is most evident in the instance of export credits, which typically finance a certain proportion of the cost of the goods being imported. As long as this proportion is maintained, financing expands automatically at the same rate as any increase in prices. Then too, the process of inflation enlarges the surplus of surplus countries in the same way that it increases deficits of deficit countries, thereby creating additional external financing available to meet the larger deficits. Most of the funds generated in this way will flow through private hational and international capital markets. They will thus become available at market rates of interest and will have maturities governed by the lenders' degree of preference for liquid assets and the capacity of banks, through the process of intermediation, to transform short-term balances into long-term loans.

If the supply of certain types of finance advances in a quasi-automatic fashion in response to price inflation, increases in other types of finance require conscious policy decisions. When these decisions do not occur or are taken with a considerable lag or with respect to only some of the flows involved, the composition of financial flows in the international system is altered. This is indeed what has occurred in recent years: the share of export credits and private portfolio investments in the total financial flow from DAC member countries to developing countries and multilateral agencies rose from around 20 per cent in 1970 to about 40 per cent in 1977, while the share of ODA fell from 43 per cent to 30 per cent. And the vastly increased role of Euro-currency lending by private banks, which is not fully reflected in the above figures, is well known. While a number of diverse factors have combined to produce this result, the role of price inflation as an instrument for shifting the composition of financial flows in the system should not be overlooked.

Substantial changes in the composition of financial flows, in turn, have far-reaching implications for individual developing countries. The most fundamental of these is the adverse impact on countries which, because of their low level of development and inability to carry heavy debt-servicing burdens, depend primarily on ODA for their external financing. Even among countries able to bear commercial interest rates on their external financing, however, the uses to which short- and medium-term financing can prudently be put are limited. The financing of projects with long gestation periods on the basis of medium-term credit might be attempted as an expedient designed to allow investment programmes to proceed in the face of a temporary short-fall in long-term financing. It is not a suitable means, however, for financing an investment programme over the longer term. Nor can such projects usually be financed on the basis of export credits. Moreover, extensive recourse to bank loans on short- or medium-term maturities is usually accompanied by the need to hold larger balances with the banks from which the loans are obtained. This adds to the net costs of the borrowing and diverts financial resources from the financing of development projects.

Although rapid expansion of certain types of financing as a result of inflation in the world economy has been of considerable benefit to countries able to use them, there is growing evidence that the difficulties enumerated above are resulting in reluctance on the part of a number of countries to make full use of the financing possibilities available from private sources. This reluctance has not been solely due to financial considerations; it has been influenced by the export outlook of the countries involved also. This outlook is at present clouded by the lower rates of growth of domestic demand that have characterized developed market economies in recent years and by the resort to protectionist measures. It is also affected, however, by the recent acceleration of world inflation. When import prices are expected to rise rapidly and steadily while commodity export prices, though generally rising, remain subject to wide fluctuations and even in particular cases to substantial declines, the possibility of rapid and substantial deterioration in the trade balance is increased. An appropriate response to such an outlook is to eschew credits with high servicing costs over the short term and attempt to improve the country's over-all net asset position.

The current situation as regards the management of external accounts is thus characterized by a number of disquieting features. The size of deficits to be financed, as measured in current prices, has expanded considerably; the external financing available to meet these deficits has been skewed in the direction of funds made available through commercial channels, and those funds are characterized by high interest rates and relatively short maturities or are linked to the purchase of certain types of imports; the outlook for export earnings is particularly difficult to assess; and countries have been obliged or induced to reduce the size of their current account deficits, as measured in constant prices. Each of these phenomena is the result of a number of different factors at work in the international economy. One factor common to all - and the feature that underlies and links all of these difficulties - however, is the existence of marked price inflation in the international economy.

Improved international policies with regard to the external financing of developing countries are, as discussed below, clearly required. This is likely to be particularly evident during the coming months when, as noted in the following section, acceleration of inflation in the world as a whole, together with an expected slow-down in growth in the developed market economies and a deterioriation in the terms of trade of developing countries will increase the strains on the external accounts of developing countries. Given the critical importance of imports in the development process, the way in which these strains are absorbed will be of considerable consequence. One possibility is that the levels or rates of advance of imports will be reduced, so that the external disturbances are transmitted directly to the domestic economy. Another possibility is that the growth of imports will be maintained, in which case the increased strain on the external accounts would take the form of larger deficits. If this course were followed, the aggregate current account deficit of non-oil-exporting developing countries could enlarge by as much as $15 billion in 1979, reaching a level in the range of $45 billion-$50 billion. 9/

A current account deficit of this size is not disturbing in itself. Indeed, the trade deficit associated with a current account deficit of this order of magnitude would still be smaller in real terms than the average deficit experienced by those countries in the period 1970-1972 and would be far below the magnitudes recorded in 1974 and 1975. More broadly, a large and growing deficit measured in current prices is the normal concomitant of measures to increase the flow of real

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9/ The assumptions used in deriving this result are that the volume of imports will rise by 5 per cent in 1979 while the unit value rises by 10 per cent (as compared with 8 per cent in 1978) and that the volume of exports advances by 3 per cent in 1979 (as compared with 9 per cent in 1978) while the unit value of exports increases by 5 per cent (as compared with no change in 1978). It has also been assured that there will be no significant change in the net balance on account of services.

resources to developing countries under conditions of price inflation. However, for such deficits to be sustainable and to avoid the possibility of subsequent over-correction, it would be necessary for financing suitable to the longer-run needs of developing countries to become available in adequate amounts.

The outlook for the world economy in 1979

In both 1977 and 1978 rates of growth in total output were substantially below their long-term averages in all groups of countries, and there is little hope that this pattern will be broken in 1979. In fact, growth rates are likely to decline in both developing countries and the developed market economies. In the centrally planned economies, output targets are only marginally higher than the reduced rates of growth experienced in 1978.

The developing countries are expected to experience heightened difficulties in their external accounts. These countries will be adversely affected by the expected slow-down in the developed market economies, which are their major export markets, and, given the poor growth prospects of the developed market economies, the likelihood of any liberalization in the trading environment in favour of the developing countries is small. For these reasons, rates of expansion in the volume of exports are expected to be lower than in 1978. Moreover, the terms of trade of the non-oil-exporting developing countries are expected to deteriorate further. Higher rates of inflation in the developed market economies will continue to push up the prices of manufactures imported by developing countries. In addition, higher oil prices will raise the oil import bill. On the other hand, in view of economic prospects for the developed market economies, primary commodity prices are unlikely to keep pace with international inflation rates. While the prices of certain metals may increase due to the depletion of stocks during 1978, primary commodity markets in general are expected to remain weak.

The collective current account deficit of the non-oil-exporting developing countries is expected to rise substantially. It now appears likely that the current account deficit could reach $50 billion. On the basis of present trends, it may be supposed that most of the financing for the higher current account deficits will continue to come from the Euro-currency markets, at least for the "credit-worthy" developing countries, and from drawing down foreign exchange reserves in those countries that were able to increase them in 1978. If the capital-exporting developing countries and some of the developed market economies which are expected to remain in surplus build up their Euro-currency deposits, the total supply of funds to the market could increase considerably. The demand for these funds, however, may grow both to meet the needs for balance-of-payments financing and because tight monetary conditions in certain developed countries may make private borrowing on the Euro-currency markets more attractive. Borrowing terms may thus tighten.

While the developing countries that are considered credit-worthy by the international banks are unlikely to encounter major difficulties in financing their increased deficits, this will not be the case for the many lower-income developing countries that do not have adequate access to international capital markets or for certain countries that have accumulated large external debts since 1973. The ability of these two groups of countries to finance larger deficits will continue to depend on the availability of ODA and official balance-of-payments financing. Based on policy commitments made to date and the time lag between commitments and actual expenditures, there is little likelihood of any significant increase in the real value of ODA flows in 1979. 10/

These worsening prospects for the external sector suggest that many developing countries are likely to have difficulties in maintaining their rates of growth of output even at the modest levels achieved in 1978. A large number of countries may experience difficulties in adequately increasing their import levels, and in some countries imports may even decline. To be sure, as discussed in the preceding section, the relationship between imports and output growth is not ironclad. However, in most developing countries slow growth in the volume of imports may be expected to affect investment adversely in the medium term. Since in non-oil-exporting developing countries imports have expanded on average at less than 4 per cent per annum over the past four years, intensified pressures on external acounts may lead to the curtailment of imports of capital goods.

Current prospects for the international economy are likely to have other adverse effects on developing countries. The poor export outlook and the increased cost of energy may have a significant impact on the expansion of manufacturing output in the non-oil-exporting countries, which is the most dynamic sector of their economies.

The difficulties that developing countries are expected to experience during 1979 are largely due to the deteriorating economic situation of the developed market economies. The developed market economies are widely expected to experience a further slow-down in economic growth and a quickening of inflation in 1979.

At the beginning of the year, forecasts for these countries suggested an aggregate increase in total output of only 3 per cent for the year as a whole. 11/ These forecasts are based on the expectation that, if present trends and policies continue, the growth of economic activity will decelerate substantially in the Uited States and will not accelerate in Europe and Japan. While present policies in the United States are clearly designed to dampen domestic demans so as to reduce inflation and bring external accounts into better balance, policies in the other major industrial countries are unlikely to lead to a sustained increase in output and imports. High rates of inflation in some countries and fears of re-igniting inflation in others have inhibited policy makers from taking sufficiently strong measures to stimulate their economies. In addition,

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10/ Among the major donors, the Government of Japan decided in July 1978 to double ODA disbursements, expressed in United States dollars, by 1980 in relation to 1977 (Organisation for Economic Co-operation and Development, Development Co-operation, 1978 Review (November 1978), p. 141). In the period from mid-1977 to January 1979, an increase of almost 40 per cent had been realized simply due to the appreciation of the yen/dollar exchange rate.

11/ On the basis of information available as of early January, the LINK Project was forecasting an average growth rate of 3.1 per cent for the 13 developed market economies participating in it (Australia, Austria, Belgium, Canada, France, Finland, Germany, Federal Republic of, Italy, Japan, Netherlands, Sweden, United Kingdom and United States of America). This figure was in accord with the 3 per cent rate of growth forecast by the OECD secretariat in December 1978 for OECD member countries. See Organisation for Economic Co-operation and Development, Economic Outlook, No. 24 (December 1978), p. 1.

trends in fixed investment continue to be weak in most developed market economies. In this regard, the uncertain international outlook, with its possible effects on the stability of present exchange rates, has been an added adverse factor discouraging investment, particularly in the more open economies of Europe and Japan whose manufacturing sectors are heavily oriented towards production for export. In the absence of stronger reflationary measures in the major surplus countries and also to some extent in other industrial countries now in surplus, the brunt of the adjustment in external positions will fall on a reduction in the pace of economic activity in the United States, with adverse consequences for global economic expansion.

The economic picture in the developed market economies could be further complicated by the tightening of oil supplies brought about by the political developments in Iran. As a result of the curtailment of Iranian oil exports - by almost 60 per cent - oil prices have risen sharply. 12/ These price increases will have an additional deflationary impact on aggregate demand in oil-importing countries while at the same time adding to the upward trend in domestic costs. 13/ Moreover, the rise in oil prices, while not presenting any payments difficulties for the developed market economies with balance-of-payments surpluses, may slow the expected correction in the large current account deficit of the United States. 14/ Unless there are unexpectedly favourable developments in other circumstances affecting the payments balance, it is likely to delay the reversal of policies calculated to restrain the growth in aggregate demand and restrict imports; and these are policies exerting a contractionary influence on world trade.

Of course, recessionary tendencies could be checked by appropriate policy action. For example, in an effort to counter the deflationary impact of the oil-price increase, the French Government in early April adopted a $1.4 billion package of measures to stimulate investment. If a sufficient number of countries were to pursue similar measures, the danger of a serious decline in world economic growth could recede. During the round of oil price increases of 1973-1974, the view appears to have prevailed that the main threat was a sharp acceleration of inflation, and demand management policies were not sufficiently adapted to the deflationary effects on expenditure of the price increases. As the experience of 1974-1975 shows, the cost-push inflationary impact of oil price increases cannot be

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12/ As of early April, prices announced by OPEC member countries for the second quarter of 1979 for the output of all major producers except Saudi Arabia had risen by 24 to 31 per cent above the levels prevailing at the end of 1978. See Financial Times (London), 3 April 1979.

13/ A recent study by OECD estimates that every 10 per cent rise in the price of oil adds $12 billion-$14 billion to the import bill of developed market economies and nearly one half of a percentage point to the inflation rate in this group of countries. See Organisation for Economic Co-operation and Development, Economic Outlook, No. 24 (December 1978), p. xi.

14/ Projections of the LINK model, which take into consideration policy developments up to the second week of April 1979, and feedback of increased imports by oil-exporting countries suggest that the trade balance deficit of the United States will be of a magnitude similar to that of 1978.

dealt with effectively by dampening aggregate demand, a policy which only leads to lower rates of economic growth and higher unemployment. While this in no way lessens the need to find means of containing and reducing rates of inflation, it does argue for careful selection of means which are appropriate and will not produce undesired results.

No substantial quickening of the pace of economic growth is likely in the centrally planned economies of Eastern Europe and the Soviet Union in 1979. Short-run policy objectives of the socialist countries stress efficiency improvements and consolidation rather than acceleration of growth, and the over-all output targets in the annual plans of most countries are only marginally above, or are even below, the reduced rates of expansion experienced in 1978. For the group as a whole they imply a growth in net material product of 4.5 per cent as against the increase of 4.2 per cent in 1978.

The short-term outlook for the centrally planned economies is strongly affected by intersectoral imbalances and capacity bottle-necks, especially in the energy, raw material and transportation sectors, which some countries experienced in the wake of the rapid growth of the early 1970s and which were markedly exacerbated in 1978. But longer-term factors such as reduced growth of labour supply and increasd capital intensity of production also place constraints on the growth potential. National policies and multilateral undertakings in the framework of the Council for Mutual Economic Assistance (CMEA) designed to ease the fuel and energy shortages are of necessity of a long-term nature, and supplies in this sphere will remain tight. However, some improvement can be expected in 1979-1980 from the recent commissioning of two major CMEA projects, the Orenburg gas pipeline and a high-voltage link between the Soviet and the Eastern European power grids.

In keeping with the emphasis on improvements in internal and external balance, aggregate demand expansion in the socialist countries is to be held down. Consumption indicators are expected to increase at a steady rate in most countries, but investment growth is to be substantially lower than in the preceding year in most countries. Further, policy discussions generally indicate the expectation of achieving a reduction in trade deficits with the market economies. Several countries have explicitly targeted a substantial acceleration of growth in exports and a significant deceleration, or continued low growth, of imports in non-socialist trade. These were essentially the goals set, though not always achieved, in the preceding year.

Economic developments in the first months of 1979 have not been auspicious for the achievement of the development goals and patterns in the national economic plans of the European centrally planned economies. Difficult production conditions at the beginning of the year, when unusually harsh winter weather caused widespread supply and energy breakdowns in several Eastern European countries, may already have jeopardized some of the output targets for the year. Deteriorating prospects in the developed market economies and the worsening terms of trade of the fuel-importing countries of Eastern Europe are bound to affect the realization of all aspects of the foreign trade targets and will make the achievement of over-all targets more difficult to attain.

Some policy implications

In recent years, developing countries have been compelled to make substantial adjustments in response to the disequilibria prevailing in the world economy and those adjustments have taken the form of a reduced rate of domestic economic growth. The slower pace of expansion in export earnings, especially when measured in terms of their real purchasing power, has been an obvious constraint on domestic economic growth which has reflected the sluggishness of economic performance in many of the developed market economies. The preceding analysis has also brought out the less obvious point that the evolution of the deficit of the non-oil-exporting developing countries in their external accounts has in no way eased the restriction on the financing of imports that has derived from the behaviour of export earnings. In fact, the combined current account deficit of these countries has declined as a percentage of both export earnings and gross domestic product since 1975, and is smaller than what it was in the early 1970s. Imbalances in the flows of the different kinds of finance available to cover the deficit have contributed to its compression, and international inflation has been a significant factor accounting for the distortion in flows. Since the sustained expansion of investment in the developing countries is linked to the capacity to import, the pace of economic growth is constrained by the continuing weakness of main export markets and by limitations on the enlargement of the current account deficit. Especially in a period of slower growth in world trade, it is important that the developing countries be able to finance larger deficits on current account. If a greater flow of finance on suitable terms is not forthcoming, the main concern in the immediate future will be whether economic growth in the developing countries can be sustained even at the present reduced rate.

For various reasons, including the distortions introduced by persistent international inflation, the composition of the finance available to developing countries for covering their deficits has undergone major changes during the 1970s. As is well known, official development assistance and other long-term flows have failed to expand adequately in real terms over recent years. This has been one of the major causes for the sharp increases in short- and medium-term financing from private banks, which have played such an important role in the financing of the balance of payments of developing countries, particularly the more industrialized countries. However, dependence on such finance entails a number of dangers. In the first place, a number of countries have limited or no access to private markets and they may, accordingly, be unable to expand their productive capacity adequately, being forced to introduce sharp cutbacks in their development plans when external events beyond their control cause their export earnings to drop. Secondly, countries with access to private financial markets probably make less use of external financing than they would if the funds were of a longer-term nature. Uncertainties about the possibility of refinancing existing loans and also about the increase in export earnings required to service them are likely to account for the cautious attitudes observed in many countries, which are reflected in attempts to build up a reserves and slow down the growth of imports.

For countries almost exclusively dependent on official sources for long-term capital, a larger flow of official development assistance is the primary need. Substantial increases in the nominal value of ODA are made all the more necessary by the prevalence of international inflation, which is eroding the value of ODA in real terms. In addition, developing countries require better access to long-term non-concessional financing. Besides improved access to long-term private sources of financing, such as the bond markets, there is need for greater official intermediation in the international capital markets in order to channel private funds into long-term investment in developing countries. At present the task of transforming private short- and medium-term funds into official long-term loans is undertaken by the World Bank and the regional multilateral financial institutions. The capacity of these institutions to increase rapidly their activities needs to be enhanced. Further, proposals to create new mechanisms for transforming private funds into long-term development loans, such as the Mexican proposal to establish a long-term facility to finance the purchase of capital goods by developing countries, require careful consideration.

In the context of the outlook for 1979, it will be important for the larger surpluses which some oil-exporting developing countries are expected to run, due to the increase in crude petroleum prices, to be expeditiously "recycled" to other developing countries. While private capital markets will most likely perform a part of this task by lending to the more industrialized developing countries, there is also need to ensure that countries with inadequate access to private markets are able to finance their higher payments deficits. In addition, some countries which in the past have had access to private sources of financing and have accumulated large external debts may find private lenders unwilling to accommodate all of their increased financing requirements. Thus for a number of developing countries, particularly lower-income countries, the importance of having greater access to official balance-of-payments financing on appropriate conditions should be underscored.

In general, enhanced access by developing countries to official payments finance and to other forms of finance would, by protecting the development plans and imports of those countries, help to support the levels of aggregate demand in the developed market economies. Further, sustained or increased import demand on the part of the dwveloping countries is likely to be of particular benefit to those developed market economies that are still in deficit and whose competitive position has improved as a result of exchange-rate movements. This would contribute, in some measure, to the attainment by those countries of external balance with less stringent demand management policies.

But the principal means for raising levels of economic activity in the developed market economies is to be found in the demand management policies of those countries themselves. The experience of 1974-1975 clearly shows the need for speedy action, particularly by those countries that are better able to undertake it, to stimulate aggregate demand so as to counteract recessionary tendencies and the added deflationary impact of the oil price increase. The forecasts of an impending serious slow-down in the pace of economic activity underscore the need for policies more oriented towards stimulating growth. At this juncture, the comfortable external position and the existence of underutilized resources in a number of countries would suggest that more aggressive policies to stimulate demand may yield significant dividends in terms of growth, without necessarily exacerbating inflation.

In the present inflationary environment, it is important that expansionary policies be combined with appropriate, anti-inflationary action. Suitable measures could well include both more innovative incomes policies and actions designed to promote the more rapid growth of over-all productivity. It bears repeating that the developed countries which have generally beeen most successful in containing inflation are those which - often for complex social and institutional reasons - have been most able to avoid sharp, discontinuous shifts in the real disposable income of major income groups. In this regard, the possibilities for greater use of fiscal policy in contributing to the stabilization of real incomes offer new lines of action. 15/ A range of measures to raise labour and capital productivity more rapidly might also contribute to the greater growth and stability of real incomes. Such measures would include the more rapid adjustment of industrial structures through the phasing out of activities of relatively low productivity and the reallocation of productive resources to newer industries of higher productivity. Thus, the medium-term aim of promoting a more efficient international structure of production, which is so important for the prospective growth in exports of many developing countries, would contribute to the objective of lessening inflation in developed market economies. In the short term, both aims would be more immediately served by the firm resistance of Governments in developed market economies to any further demands for increased protection.

15/ The tax-based incomes policy recently proposed in the United States is such an innovation. In essence, it ties tax rebates on personal income and profits to the acceptance of official wage and price norms. See Brookings Institution, Brookings Papers on Economic Activity, No. 2 (Washington, D.C., 1978).

Table I-1. World production: annual growth rates, by country group, 1971-1978

(Percentage change from preceding year)

Item and country group	Average, 1971-1978 a/, b/	1976	1977	1978 a/
Gross domestic product c/				
Sum of country groups	4.3	5.5	4.2	3.8
Developed market economies d/. . .	3.4	5.3	3.6	3.6
Developing countries e/	5.8	5.7	5.9	4.0
Centrally planned economies f/, g/	5.8	5.9	5.0	4.2
Agricultural production h/				
Sum of country groups	2.5	1.8	2.6	3.4
Developed market economies	2.2	0.9	2.7	2.6
Developing countries	2.5	1.8	3.4	2.5
Centrally planned economies . . .	2.4	4.7	3.0	3.6
Industrial production i/, j/				
Sum of country groups	5.0	8.0	5.2	4.2
Developed market economies	3.2	8.2	4.0	4.2
Developing countries	6.2	8.0	4.7	4.6 k/
Centrally planned economies . . .	7.0	5.6	6.1	5.2

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations Monthly Bulletin of Statistics, Yearbook of National Accounts Statistics, Survey of Economic and Social Conditions in Africa and Economic and Social Survey in Asia and the Pacific, various issues; Food and Agriculture Organization of the United Nations, Monthly Bulletin of Agricultural Economics and Statistics, various issues, Organisation for Economic Co-operation and Development, Main Economic Indicators and Industrial Production, various issues; International Monetary Fund, International Financial Statistics, various issues; and other national sources.

Note: Methods of estimation differ among the production components and among the country groups. For this reason, and also because of the problem of assigning weights to the country groups, the aggregated changes should be interpreted with caution. The over-all figures provide no more than a rought indicator of the magnitude of year-to-year changes.

a/ Preliminary, based in some cases on data for a period of less than 12 months and, in some of the developing countries, on indicators.

(Foot-notes to table I-1) (continued)

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b/ Average annual compounded rate of growth for the eight-year period, for which a simple arithmetic average of the annual growth rates for the period is used.

c/ Measured at 1970 constant market prices.

d/ North America, northern, southern and western Europe (excluding Yugoslavia), Australia, Japan, New Zealand, South Africa and Turkey.

e/ Latin America and the Caribbean area, Africa (other than South Africa), Asia (including Israel but excluding Turkey, China, Democratic People's Republic of Korea, Japan, Mongolia and Viet Nam) and Yugoslavia.

f/ Eastern Europe and Union of Soviet Socialist Republics. Owing to lack of information, the Asian centrally planned economies - namely, China, Democratic People's Republic of Korea, Mongolia and Viet Nam - have not been included.

g/ Data refer to net material product and are thus not fully comparable to those of the other country groups.

h/ Based on index of gross output and hence not comparable to the national accounts measure of production. Methods of estimation differ among the country groups. Sum of country groups as estimated by FAO in March 1979.

i/ Based on index of value added, except in the centrally planned economies, for which the index is based on gross output at constant prices. Since an international system of weights is used for aggregating the various industrial branches, the results tend to differ slightly from those obtained from an aggregation of national industrial production indices. In most developing countries, the data are for the organized industrial sector and exclude small-scale handicraft production.

j/ ISIC 2-4, i.e., covering mining, manufacturing, and electricity, gas and water.

k/ Growth rates for the first half year over corresponding period of preceding year.

Table I-2. World agricultural production, 1971-1978

Country group a/	Average growth rate, 1971-1978 (percentage)	Index number (1969-1971 = 100) 1975	1976	1977	1978 b/
World	2.5	113	115	118	122
Developed market economies	2.2	111	112	115	118
North America	2.8	113	117	121	121
Western Europe	1.9	110	109	111	116
Oceania	3.1	113	119	115	128
Other developed countries	1.4	110	104	111	112
Developing countries	2.5	114	116	120	123
Africa	1.4	106	110	108	112
Latin America	3.0	115	118	124	128
Near East	3.1	118	124	123	126
Far East	2.6	115	114	121	124
Other developing countries	2.6	114	119	122	123
Centrally planned economies	2.7	115	117	120	125
Asian centrally planned economies	2.8	118	121	123	126
Eastern Europe and USSR c/	2.7	112	115	118	124

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the Food and Agriculture Organization of the United Nations.

a/ The classification of countries is that used by FAO and is not strictly comparable to the one used elsewhere in the present Survey.

b/ Preliminary.

c/ The growth rate shown in this table for Eastern Europe and USSR differs from those in table I-1, which are based on calculations on data from national sources.

Table I-3. World trade: annual growth rates, by country group, 1971-1978

(Percentage change from preceding year)

Item and country group	Average, 1971-1978 a/	1976	1977	1978 a/
Quantum of exports				
Market economies	6.1	11.4	3.4	5.3
Developed b/	6.5	11.2	4.7	5.8
Developing b/	4.6	13.9	-0.7	3.6
Oil-exporting countries c/	1.3	14.6	-1.0	-3.5
Other	7.3	15.9	2.0	9.1
Centrally planned economies d/	7.8	7.9	8.7	3.5
Quantum of imports				
Market economies	5.6	11.8	4.9	3.4
Developed b/	5.2	13.2	4.4	4.9
Developing b/	7.2	8.7	4.9	2.3
Centrally planned economies d/	8.8	6.7	3.9	7.2
Unit value of exports				
Market economies	12.6	1.9	8.7	9.3
Developed b/	11.3	-	8.3	13.0
Developing b/	17.9	6.1	12.1	0.8
Oil-exporting countries c/	28.2	6.0	10.4	...
Other	11.8	6.0	17.0	...
Unit value of imports				
Market economies	12.6	0.9	8.7	9.3
Developed b/	12.5	1.4	7.9	10.3
Developing b/	13.1	1.3	10.2	7.6

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations Monthly Bulletin of Statistics, various issues; International Monetary Fund, International Financial Statistics, various issues; and national sources.

a/ Preliminary, based in some cases on incomplete information.

b/ Since country coverage is incomplete, figures are not strictly comparable to figures in table I-4.

c/ Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

d/ Eastern Europe and USSR.

Table I-4. Elements in the world balance of payments by country group, 1971, 1976-1978

(Billions of dollars)

Item and country group	1971	1976	1977	1978 a/
Exports, f.o.b.				
World	348.9	985.1	1 121.8	1 285.6
Market economies	315.2	900.0	1 022.8	1.171.4
Developed	253.0	647.5	735.0	876.1
Developing	62.2	252.5	287.8	295.4
Oil- xporting countries b/.	23.3	138.9	152.1	146.5
Other	38.9	113.6	135.9	148.9
Centrally planned economies c/. .	33.7	85.0	98.9	114.2
Imports, c.i.f. d/				
World	362.5	1 008.5.	1 154.1	1 333.3
Market economies	329.8	916.3	1 053.2	1 216.7
Developed	262.5	702.0	793.8	909.9
Developing	67.2	214.4	259.4	306.7
Oil-exporting countries b/.	12.9	67.8	89.6	104.9
Other	54.3	146.6	169.8	201.8
Centrally planned economies c/. .	32.7	92.1	100.9	116.6
Balance of trade e/				
World	-13.5	-23.4	-32.4	-47.7
Market economies	-14.5	-16.3	-30.4	-45.2
Developed	-9.5	-54.5	-58.8	-33.8
Developing	-5.0	38.1	28.4	-11.3
Oil-exporting countries b/.	10.4	71.1	62.6	41.6
Other	-15.4	-33.0	-34.1	-52.9
Centrally planned economies c/. .	1.0	-7.1	-2.0	-2.5
Changes in international reserves f/				
Market economies	40.4	30.5	60.4	42.9
Developed	35.2	9.2	38.4	45.9
Developing g/	5.2	21.3	22.0	-3.0
Oil-exporting countries b/.	3.5	9.3	10.8	-15.5
Other g/	1.7	12.0	11.2	12.5
Net changes in other balance-of-payments items h/				
Market economies	54.9	46.9	90.8	88.1
Developed	44.7	63.7	97.2	79.7
Developing g/	10.2	-16.8	-6.4	8.3
Oil-exporting countries b/.	-6.9	-61.8	-51.7	-57.0
Other g/.	17.1	45.0	45.3	75.4

(Source and foot-notes on following page)

(Source and foot-notes to table I-4)

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, various issues; International Monetary Fund, International Financial Statistics, various issues; and national sources.

a/ Preliminary, based in some cases on incomplete information.

b/ Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

c/ Eastern Europe and Union of Soviet Socialist Republics.

d/ Imports are valued c.i.f. for market economies and f.o.b. for centrally planned economies.

e/ Exports minus imports.

f/ Gold, SDR, convertible foreign exchange and reserve position in the International Monetary Fund.

g/ Excluding certain countries whose international reserves are not reported.

h/ Including errors and omissions.

Table I-5. Import capacity and economic performance of non-oil-exporting developing countries

(Unweighted averages of average annual percentage rates of growth)

	GDP		Domestic investment		Government consumption		Private consumption		Agricultural output		Manufacturing output	
	1965-1973	1973-1976	1965-1973	1973-1976	1965-1973	1973-1976	1965-1973	1973-1976	1965-1973	1973-1976	1965-1973	1973-1976
30 countries with sustained or improved growth of import capacity a/	4.3	5.3	6.1	15.3	4.7	6.7	3.9	5.1	2.2	4.9	6.8	5.7
40 countries with diminished growth of import capacity b/	4.9	2.9	5.3	4.3	6.2	5.4	4.3	2.8	2.5	2.6	7.2	3.3

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data provided by the Statistical Office of the United Nations and the secretariat of the United Nations Conference on Trade and Development.

a/ Countries having an average annual rate of growth of import volume in 1973-1976 equal to or greater than that experienced during 1965-1973.

b/ Countries having an average annual rate of growth of import volume in 1973-1976 below that experienced during 1965-1973.

Table I-6. The current account balance of non-oil-exporting developing countries a/ and related indicators

	Average, 1970-1972	1973	1974	1975	1976	1977	1978 b/
Current account balance (billions of dollars)	-10.4	-11.3	-29.9	-37.7	-25.2	-22.0	-35.0
Ratio of current account balance to export earnings (1970-1972 = 100)	100	65	118	155	84	61	90
Ratio of trade balance to GDP both expressed in constant prices (1970-1972 = 100)	100	84	117	106	48	24	38

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues; and information made available by IMF.

a/ Country coverage is that used in the world tables of International Monetary Fund, International Financial Statistics, and does not necessarily coincide with that used in other tables of this Survey.

b/ Preliminary estimates.

Chapter II

THE DEVELOPING ECONOMIES

Summary

For the developing countries as a whole, 1978 can be characterized as a year of inadequate economic growth associated, *inter alia*, with a loss of dynamism in export earnings and the continued insufficiency of long-term capital inflows. It was also a year in which developing countries were reluctantly making adjustments to a clouded and relatively stagnant outlook for expanded trade with developed countries. Certain export-oriented investment plans were, for instance, re-examined; and some countries built up foreign exchange reserves so as to be less vulnerable to a possible further worsening of world market conditions in 1979 or beyond.

Taken together, the oil-exporting countries experienced a very sharp decline in their rate of economic growth, achieving an increase of less than 3 per cent in total output. Non-oil-exporting developing countries as a group continued to grow at the slower pace that they had experienced since 1975 - an annual rate of about 4.5 per cent. Of course, individual country experiences differed widely, but generally, the international economy in 1978 did not provide the impulses to growth which were present in 1976 and 1977. In those developing countries which did achieve a significant acceleration in economic growth in 1978, internal factors played a predominant role.

Food production in the developing countries as a whole increased at a faster rate than population growth. While not all countries shared in the improvement, several countries increased food production considerably and others maintained relatively high levels previously achieved. This helped to relieve some internal price pressures. Other countries were less successful in increasing food production. In particular, in the most seriously affected countries and in other low-income food deficit countries, cereal output did not keep up with population growth. Partly because of this, food imports increased in 1978. Food aid, which increased marginally over 1977, was a smaller share of total food imports.

Export performance was generally disappointing in terms of both volume and price. Oil-exporting countries as a group experienced an actual fall in export earnings of over $5 billion while the growth of exports of the non-oil-exporting countries was half the rate of 1977. Along with rising import prices, sluggish exports led to a pervasive deterioration in trade balances as developing countries tried, not always with success, to maintain import levels. While a number of countries were drawing down their foreign exchange reserves to pay for imports, others were adding to their reserves, sometimes at rather high rates, as a precautionary measure against potential payment difficulties. The latter countries were those with easy access to private international capital flows, primarily through the intermediary of the large international commercial banks. The external borrowing as well as the impact of sluggish exports on over-all growth during 1978 underlined the crucial importance of international measures to improve the outlook for exports of developing countries.

International bank lending and external bond placements have been playing an important and expanding role in providing capital inflows to offset balance-of-payments deficits on current account for a number of the developing countries. Public capital flows, and in particular flows of ODA, have not kept pace, and their over-all share in external finance has been diminishing. Although IMF resources are being increased, recent experience suggests a hesitancy about using those resources under the terms and conditions offered, unless circumstances effectively eliminate the alternative of borrowing on private capital markets. These trends only emphasize the urgent re-examination of the terms under which the volume and accessibility to medium-term and long-term capital flows can be improved.

A brief account of main economic indicators

Significant deceleration in growth rates in 1978

After two years of economic growth more or less at the rate targeted in the International Development Strategy, developing countries as a whole experienced a considerable slow-down in 1978; the rate of growth in gross domestic product was only about 4 per cent (see table II-1). The deceleration was very marked in the oil-exporting countries as a group. The non-oil-exporting countries maintained the slower rhythm of growth that they have experienced since 1975; in recent years, the rate of increase in gross domestic product has remained within the range of 4 to 5 per cent.

The deceleration in growth in 1978 affected numerous other countries besides the oil exporters. 1/ The most populous countries in Africa and Western Asia - Nigeria and Iran - experienced a substantial drop in the rate of growth of gross domestic product, partly as a result of internal factors. In South and East Asia, India and Indonesia, after a relatively high rate of growth in 1977, experienced a slight deceleration in 1978. In the western hemisphere, most medium-size and small countries experienced a deceleration in their rates of growth. There was, however, a recovery in the performance of Brazil and Mexico.

Although different internal or external elements may explain a deceleration or acceleration of growth in particular countries, two main sectors seem to be preponderant in the explanation of the slow-down at regional levels: these are mining and agricultural production. In Africa and Western Asia, the decreasing oil output and the flagging iron-ore and copper production - because of sluggish growth in international demand - were important factors in slowing down over-all growth. Iran, the Libyan Arab Jamahiriya, Nigeria and Saudi Arabia experienced a decrease ranging from 3 to 10 per cent in crude petroleum production in 1978. The deceleration in the growth in gross domestic product in South and East Asia was mainly the result of a significant drop in the rate of growth in agricultural production; it declined from about 6 per cent in 1977 to between 2 and 3 per cent in 1978 (see table II-2).

1/ Of the 53 developing countries for which reliable indicators exist to make a meaningful comparison of the rates of growth of gross domestic product between 1977 and 1978, 32 experienced a significant deceleration in that rate. (Of those 32 countries, 6, including India, have a population above 30 million.)

The trend in agricultural production for developing countries as a whole during the 1970s was practically unchanged in 1978. The growth rate in agricultural production in 1978 was the same as for the rest of the 1970s, namely, 2.5 per cent. This rate is slightly below population growth and well below the target set in the International Development Strategy. Food production grew at a faster pace than total agricultural production. Since 1978 was the second year of relatively good harvests in most of Asia and Latin America, and since there was a significant recovery in food production in Africa, the general food situation was somewhat eased (see table II-3).

However, for a number of countries, mostly in Africa, the food situation remained critical in 1978. In some countries, increases in production were not sufficient to compensate for the drop in production in the previous year; in others, for example, Ethiopia, the Gambia and Zaire, drought conditions in certain areas considerably affected the 1978 harvests. Thus, at the start of the fourth quarter of 1978, more than 20 developing countries were reported to be facing abnormal food shortages. By the end of the year, nearly 300,000 tons of cereals had been utilized from the almost 350,000 tons contributed to the International Emergency Food Reserve (whose annual replenishment has been targeted at 500,000 tons a year by the World Food Council). Total food aid in cereals for the 1978/79 year was approximately 9.5 million tons, a marginal change from the preceding year (and still below the targeted level of 10 million tons).

Manufacturing activity seems to have provided the main impetus to growth in 1978. In fact, for developing countries as a whole, there was a significant acceleration in the rate of growth of manufacturing production (see table II-4). In several countries, 2/ a strong domestic demand stemming from increasing domestic investment as part of the industrialization drive led to a significant acceleration in the rate of growth in manufacturing. In Brazil, significant wage increases and, in Thailand, increased demand on account of growth in construction and improved agricultural conditions were partly instrumental in increasing considerably the rate of growth in the manufacturing sector.

Preliminary figures suggest, however, that acceleration of the rate of growth in the manufacturing sector was not a pervasive phenomenon. In several oil-exporting countries, the reduced levels of production and exports of oil led to a slow-down in income growth and demand for manufactured products. In many countries - such as Argentina, the Dominican Republic, Peru and Senegal - the manufacturing sector lagged considerably because of domestic readjustments or foreign exchange constraints. Besides, in general, exports of manufactures did not provide much impetus to rapid growth in developing countries in 1978. Notwithstanding, some developing countries, such as Brazil, the Republic of Korea and Singapore, by virtue of their changing structure in manufactured exports or of their linkages to such more dynamic markets as the Gulf States and Japan, were still able to increase such exports at a fast pace.

2/ For example, Algeria, Egypt, Jordan, Mexico, Philippines, Republic of Korea and Tunisia.

Lingering inflation

Although most developing countries experienced an easing of price pressures in 1978, the increase in domestic price indices was still well above price changes in the 1960s or early 1970s. In 10 countries out of the 87 developing countries for which price indices are reported, the increase in the consumer price index was still significantly above 30 per cent in 1978; 3/ in 26 of these countries, the corresponding index ranged from 10 to 20 per cent and only in 13, as compared to 50 countries in 1971, was the rise in the consumer price index equal to or below 5 per cent (see table II-5).

The lessening of price pressures in many countries was the consequence of improved agricultural production in the past two years. In Colombia, India, Morocco and Pakistan, for example, the drop in the consumer price index was accompanied by a more than proportional drop in food prices. In other countries, such as Chile, Ivory Coast, Mexico and Uruguay, the drop in inflation was the result of the maintenance of rather stringent fiscal expenditures taken in the framework of a stabilization programme. In any event, it does not appear that price pressures on account of international factors intensified in 1978. The widening current account deficits, a feature in most developing countries, no doubt allowed for certain domestic accommodations and lessened demand pressures.

However, the difficulties of maintaining increasing deficits for more than a few years usually lead to situations in which either substantial price pressures are released - for example, through import restrictions or devaluation, as in Jamaica and Peru recently - or a decision is taken to slow down the over-all rate of growth. For most developing countries domestic price movements are further complicated by the considerable instability in the value of their exports. In 1978 short-run price fluctuations in international markets continued to be quite substantial for several commodities, such as cocoa, banana, palm oil, sugar, rice and tin, hindering the already difficult stabilization efforts in many countries.

Reduction in trade balances and widening current account deficits

The sluggish export markets for developing countries and the drop in prices of certain commodities, such as coffee and tea, considerably affected the rate of growth in the value of exports. From an average rate of growth of more than 25 per cent in the period 1971-1977, the rate dropped to a mere 2.6 per cent in 1978 (see table II-6). Although this drop was more accentuated in oil-exporting countries where the volume of crude petroleum exports actually decreased, it was still very considerable in non-oil-exporting developing countries: from an average rate of growth in the value of exports of about 20 per cent in the period 1971-1977, it declined to only 10 per cent in 1978 in the latter group. Since the

3/ These countries included Argentina, Brazil, Chile, Ghana, Israel, Jamaica, Nigeria, Peru, Uruguay and Zaire.

rate of increase in the value of imports did not change significantly as compared to the previous year, the trade balance of developing countries deteriorated from a surplus of $28 billion in 1977 to a deficit of $11 billion in 1978. 4/

The sluggishness in export markets affected practically every developing country. In a number of countries 5/ the value of exports actually fell in 1978. Even in the region in which exports were more dynamic, namely, South and East Asia, the rate of growth in the value of exports was slightly below that of 1977 and significantly below that of the period 1971-1977. In India and the Philippines, for example, after a rate of increase in the value of exports of about 18 per cent in the period 1971-1977 and of more than 20 per cent in 1977, the rate dropped to less than 7 per cent in 1978.

The fortunes of individual developing countries were again linked to the price of their main commodity exports. Commodity prices, in general, remained unstable during 1978. While export prices of beverages experienced a substantial fall in 1978, export prices of food, agricultural raw materials and metals increased from the 1977 levels. On average, the price of commodity exports from developing countries in dollar terms - not including crude petroleum, whose price in international markets was essentially unchanged - dropped about 7 per cent (see table II-7). Since average import prices for developing countries increased considerably - about 8 per cent in dollar terms - the terms of trade deteriorated by more than 10 per cent in non-oil-exporting countries, and by more than 5 per cent in oil-exporting countries. 6/

Mainly as a consequence of the deterioration in the terms of trade, exports of most developing countries financed a smaller percentage of total imports last year. In non-oil-exporting countries, the share of imports financed by exports dropped from 80 per cent in 1977 to 74 per cent in 1978. In non-oil-exporting countries in Africa and Western Asia this share was only 59 per cent and 39 per cent, respectively.

The pervasive deterioration in trade balances - reductions in trade surpluses or widening trade deficits - without offsetting increases in the balance of services and private transfers, led to increasing current account deficits in

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4/ In 52 out of the 62 developing countries for which more or less reliable external trade figures exist for 1978, the trade balance deteriorated with respect to 1977. (In 16 out of the 18 developing countries with trade surplus in 1977, the surplus was reduced in 1978; in 36 out of the 44 developing countries with trade deficits in 1977, the trade deficit widened in 1978.)

5/ These included Dominican Republic, El Salvador, Gabon, Kenya, Nigeria, Paraguay, Rwanda, Saudi Arabia, Sudan, United Republic of Tanzania, Venezuela and Zaire.

6/ Since international prices, in general, have fluctuated haphazardly since 1972 and an important adjustment in oil prices took place in December 1978, it is not easy to discern a definite price trend. In any event, the deterioration of the terms of trade in 1978 implied that while gross domestic product increased by 4 per cent in developing countries, their income remained more or less stagnant in *per capita* terms.

several oil-exporting countries and in most of the non-oil-exporting countries. For oil-exporting countries as a group, preliminary indicators show that the current account surplus was reduced by roughly $20 billion. In the non-oil-exporting countries, the financing of the current account deficits, together with the decision by a few of those countries to increase international reserves, generated an increase in the net capital inflow to above $50 billion in 1978 (see table II-8).

In sum, events in 1978 did not lessen the external vulnerability of developing countries, particularly of non-oil-exporting countries. The level of international reserves, which partly reflects the degree of vulnerability in the short run, decreased in absolute terms. As an average, international reserves held by developing countries as a whole at the end of 1977 could finance six months of their imports; by the end of 1978, the corresponding figure was five months. In non-oil-exporting countries, this ratio remained practically unchanged between the end of 1977 and the end of 1978; at both points of time their international reserves could finance, on average, about four months of their imports. This latter figure, however, conceals very divergent situations in individual developing countries. In fact, during 1978, the large majority of non-oil-exporting countries experienced a drop of reserves in relation to imports. An important exception was India, a country in which worker remittances from abroad seem to have increased by more than $1 billion in 1978, thus easing the over-all payment situation. In the other few exceptions, such as Brazil, Chile, Malaysia, Morocco and Tunisia, a main factor in improving the reserve position was access to Euro-currency financial markets. The short-term as well as the long-term implications of these phenomena and their impact on development in different countries are analysed in later sections.

Some development implications of events in 1978

Major determinants of the growth performance

Since a relatively large number of countries experienced a deceleration of economic growth in 1978, this suggests that some general conditions favourable to growth in 1976 and 1977 were losing their impetus. One factor was the weather. The very considerable increases in agricultural output achieved in some regions in the earlier years were partly a consequence of good weather. Despite continued good weather, the acceleration in growth could not be repeated in 1978; this was particularly the case in South Asia. On the other hand, several countries in the Sahel, after the stimulus of earlier years provided by a gradual recovery from the long drought and by parallel diversification efforts, suffered a significant setback in 1978 because of renewed drought conditions.

A decline in growth of exports was another unfortunate factor. Developing countries in the western hemisphere and East Asia in which - because of their relatively more integrated economies - export growth constitutes a major stimulus to over-all growth had their growth possibilities curtailed as a consequence of both protectionism and the relative slack in international markets. In oil-exporting countries, where the volume of oil exports stagnated, growth impulses in 1978 instead stemmed mainly from the new industrial programmes launched in the mid 1970s. Nevertheless, in some cases, because of a re-evaluation of national development strategies or development styles and uncertainties with regard to the export markets for planned industries, a re-examination of these programmes is under way.

Indeed, in those countries which did achieve a significant acceleration over the growth rate of 1977, internal economic factors played a predominant role. For example, in Brazil, although manufactured exports expanded at a fast pace, the growth rate recovered mainly as a consequence of a decisive increase in domestic consumer spending, which grew at a faster rate than gross domestic product. In Mexico, increased aggregate demand, fuelled by new investment projects in oil and oil-related projects, led to improved capacity utilization and expanded growth.

Other countries experiencing an acceleration in their growth rates in 1978, by varying amounts over trend levels, were Algeria, Colombia, Morocco, the Republic of Korea and Sri Lanka. In Algeria, the dynamics provided by several industrial projects and the country's increased share in international oil markets led to a significant acceleration in industrial growth. In the Republic of Korea, large increases in domestic investment and, to a lesser degree, in exports provided the main stimuli to rapid growth. The acceleration in Colombia, Morocco and Sri Lanka was mainly due to autonomous factors, notably, large increases in agricultural production as a result of good harvests. In sum, even in those countries in which over-all growth accelerated, exports to industrial countries - albeit important - do not seem to have played the decisive role in that acceleration.

To a certain degree growth depends on the ability to import, and in 1978 the main element in determining the capacity to import - namely, export earnings - grew unsatisfactorily, as discussed above. Reactions of individual developing countries depended on their actual export situation, their access to credit from the international financial markets, receipts of various forms of aid and their current position vis-à-vis the International Monetary Fund. Some countries resorted to a substantial devaluation in their currencies as a way to discourage imports and to stimulate exports. 7/ Other countries resorted in 1978 to different measures, such as import licence restrictions or higher tariffs, in order to limit the increase in imports. 8/

But in general, past decisions in developing countries regarding measures to limit the increase in imports were not altered. The net consequence was that the volume of imports in developing countries barely increased in 1978; in fact, in many countries it actually decreased. 9/ No figures are available yet on how this has affected imports of capital goods, but it is quite likely that in a considerable number of developing countries no significant growth in such imports occurred in 1978. In any event, the impact on development of the slow growth in

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7/ These included Ghana, Jamaica, Peru, Sudan and Zaire.

8/ These included Barbados, Ivory Coast, Nicaragua, Nigeria, Sierra Leone and Thailand.

9/ For example, in the Bahamas, El Salvador, Ethiopia, Jamaica, Mauritius, Morocco, Mozambique, Nicaragua, Panama, Peru, Sri Lanka and the Syrian Arab Republic.

capital goods imports will only be reflected in subsequent years. For the first time in the 1970s, the imports of oil-exporting countries did not experience a substantial increase. This partly reflects fears of future financial difficulties in some of these countries, such as Nigeria; in others - for example, Saudi Arabia and the Libyan Arab Jamahiriya - it reflects a reduced demand for imports of certain consumption goods and the economic and social difficulties of absorbing additional investment at a very fast pace.

Even though the volume of imports of developing countries increased only slightly, the dollar value of their imports increased at a fast pace because of inflation in industrial countries and currency realignments. As a consequence, as noted above, trade balances deteriorated significantly in most of these countries, and in the ones with current account deficits substantial accommodation has been required.

The nature of this accommodation has differed for countries in different circumstances. On the one hand, for a number of least developed and other low-income developing countries, it was necessary to draw down reserves by substantial amounts, increasing their vulnerability to future adverse payments situations. Countries such as Bolivia, Burma, Burundi, Ethiopia, Kenya, Madagascar, Mauritius, Pakistan, the United Republic of Tanzania and Zambia experienced a substantial drop in international reserves in 1978. In the latter six countries, international reserves could not finance more than two months of imports at the beginning of 1979. On the other hand, for many other non-oil-exporting developing countries, flexibility in international financial markets allowed for a different accommodation, as will be discussed in more detail in the following section. Neverthess, it seems important to point out that such an accommodation took place in a different setting and had implications significantly different from those of the accommodations that were made in 1974-1975; it also poses, perhaps, more fundamental problems.

In the mid 1970s, there was a very rapid surge in external borrowing by many non-oil-exporting developing countries; this was the result of policy decisions not to alter substantially the planned development path in spite of the considerable changes in external conditions. Policies were established to allow for certain significant changes in the structure of industrial investment in order to adjust gradually to the change in relative prices, particularly that of energy. Programmes were launched to increase domestic capacity in energy, and export promotion policies were reinforced as a way to meet the increased import bill. The assumption on which borrowing decisions seemed to be based was that the slack in international markets would disappear after what was expected to be the usual period of recession in industrialized economies. The slack was thus perceived to be of a transitory nature; in fact, many developing countries allowed their international reserves to drop substantially. 10/ More recently, however, there

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10/ International reserves of non-oil-exporting countries were not particularly high by December 1973; as an average they covered 3.5 months of imports. Between that date and December 1975, although they might have been expected to rise with rising imports, there was an absolute drop in the level of international reserves in countries such as Argentina, Bahamas, Brazil, Chile, Egypt, Ghana, Panama, Peru, United Republic of Cameroon, Uruguay and Zambia. During the same period, international reserves dropped at least a third in relation to imports, in Malaysia, Mexico, Morocco, Philippines and Tunisia.

has been a growing realization that the weakness in international markets is not a transitory phenomenon. In fact, after a short revival from 1976 to mid 1977 of the rates of growth in the value of exports of developing countries, their exports earnings have again lost dynamism (see table II-9).

What distinguished the 1978 current account accommodations is that they were accompanied by significant increases in the reserve position in a large number of those non-oil-exporting developing countries 11/ which have access to international financial markets, 12/ suggesting that there is a certain fear of payment difficulties in the future. But whatever the cause of this fear - either the deteriorating situation in the recent past or the growing uncertainties regarding protectionism and future growth of industrialized economies, or both - the main immediate danger is that it will affect the level and distribution of investment in developing countries, and hence economic development in the long run. Flexible short-term and even medium-term accommodations to external imbalances, albeit important, do not provide the external stimulus required for sustained economic progress. At the international level, only an improved export outlook, supplemented by long-term capital flows, can go a long way towards stimulating growth in developing countries.

Development and the trade link

In the long run, the level and distribution of investment are among the main determinants of structural change and the rate of growth of gross domestic product. A deterioration in the long-run export outlook affects the level and distribution of investment in developing countries in various ways: export-oriented programmes have to be revised; reduced profits from export activities usually lead to a scaling down of domestic investment; import policies are affected, leading, in some cases, to a re-examination of the whole industrial strategy.

A revision of export-oriented programmes is still not a pervasive phenomenon. None the less, in several developing countries a variety of industrial programmes launched in the mid 1970s, particularly metal-processing activities, are being delayed or have been postponed indefinitely because of export market uncertainties. Thus, an important source of growth has been weakened, affecting in larger measure those developing countries which have already passed through the

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11/ Sluggish exports also led to significant accommodations in oil-exporting countries. Some of them - Algeria, Indonesia, Nigeria, Venezuela - reduced the level of international reserves and, for a while, by borrowing heavily in international financial markets, allowed for a substantial widening of their current account deficits to maintain the pace in imports. However, in December 1978 measures were agreed upon in OPEC regarding a gradual increase in crude petroleum prices to prevent a further deterioration in their terms of trade.

12/ Some of the non-oil-exporting countries whose current account deficits have widened significantly and whose international reserves have tended to increase at a pace similar to, or faster than, imports during 1978 are the following: Barbados, Brazil, Chile, El Salvador, Guatemala, Guyana, Israel, Ivory Coast, Jordan, Philippines, Singpore, Thailand and Tunisia. (In some of these countries - Brazil, Guatemala, Jordan, Philippines, Singapore and Thailand - international reserves already covered more than four months of imports by December 1977.)

first stages of industrialization. In fact, many of the developing countries which, in response to the upheavals in international markets of late 1973, had embarked on considerable adjustments in their export policies, 13/ are again being compelled to readjust, in a search for a different growth pattern.

The readjustment, if substantial, is likely to affect most of all the environment in which industrialization will occur. Exports of manufactures are important not only because they provide foreign exchange and are usually directed at what are likely to be more dynamic markets; they also often constitute the main pole for modernization and diversification of the economy. Moreover, for relatively small countries they provide the way to engage efficiently in industrial activities which enjoy large economies of scale. Further, the relatively high efficiency associated with production for export may have indirect effects on other manufacturing branches, being instrumental in changing the technological and managerial environment in which industrialization takes place. There are indications that such a relation may have recently been obtained in a number of developing countries. For example, a very substantial acceleration in the growth rate of manufacturing and gross domestic product has taken place in the past 10 years, as compared to the previous 10 years, in countries emphasizing exports of manufactures such as Brazil, Colombia, Ivory Coast, Malaysia, the Republic of Korea and Singapore. 14/

Regarding financial resources, the surplus or profit generated in export activities often constitutes a significant - sometimes the most dynamic - part of national saving. A clouded outlook regarding the surplus from export activities affects the expected supply of domestic financial resources and consequently, investment. External resources to substitute for the surplus generated in export activities to finance domestic investment, even if they are available in the volume required, are only a partial solution. Countries have to commit future production to meet corresponding interest and amortization. Besides, there are limits set both by the terms of debt and by the level of export earnings to the magnitude of resources which can be borrowed and serviced; and these are particularly restrictive for countries which are already heavily indebted. In the past year, countries such as Brazil, Ivory Coast, Morocco, the Philippines and the Sudan have re-examined their plans - or development strategies - and have taken the decision to scale down or lengthen the time-scale of some investments rather than continue to increase their external debt at a disproportionate pace.

13/ Facing a larger import bill since the end of 1973, many developing countries emphasized a build-up of export capacity. The changed importance attached by developing countries to exports, particularly exports of manufactures, as well as their role as a dynamic element in over-all growth is described in "Planning for development: goals and policies of developing countries for the second half of the 1970s", Journal of Development Planning, No. 11 (United Nations publication, Sales No. E.77.II.A.14). This document analyses national development plans, particularly those launched in the mid 1970s.

14/ In this context, it is also important to consider the historical experience of small industrialized countries, i.e., countries in Eastern and Western Europe with a present population well below 20 million. Rapid industrialization in those countries since the late 1940s has been closely related to a very dynamic external trade (exports as well as imports) in manufactures.

The effect of the unfavourable exports prospects on the imports of developing countries has not been substantial so far. In general, countries have more or less maintained a cautious attitude regarding the pace of growth of their imports. It is likely, however, that as events confirm the expected slow rhythm in export growth, developing countries will have to adjust gradually to an even lower rate of growth in imports. And since there is usually little room to compress non-essential imports, reduction in imports basic for rapid industrialization - strategic inputs and machinery - may be the only way out. 15/ In this context, specific export activities for which imported inputs are given preferential treatment may suffer particularly.

But apart from these potential developments, there is another issue at stake. Several developing countries 16/ have embarked lately on selective import liberalization programmes as a way to allow for more competition and increased industrial efficiency. A delay in these liberalization programmes, although it has a relatively low cost in the short run, might imply substantial social and economic costs in the future. To maintain employment levels and the pace of industrialization, some investment will have to be diverted to import-substitution activities. Generally, import-substitution activities, unless faced with a minimum of competition, run the risk of becoming rigid and inefficient, thus affecting the efficiency of the whole industrial sector. The likely result of an export slow-down would thus lead to repetition of indiscriminate import-substitution and tend to hinder over-all development.

Trends and problems in the external financing of current account deficits

Opportunities and constraints facing developing countries in 1978

The events of 1978 discussed above highlight a problem which warrants more extended consideration. When, as happened in 1978, the export growth of the developing countries flags, the balance of payments on current account deteriorates. If adequate means to finance current account deficits are not found, imports (and domestic expenditure in general) have to be curtailed, often at the expense of development programmes. 17/

15/ It is important to recognize, however, that although developing countries in general would be hurt by a slow-growing or stagnant capacity to import as a consequence of a continuously unfavourable export climate, the impact would be different among them. Because of structural rigidities, low-income countries and least developed countries might be especially affected. In those countries, unless official development assistance compensates for sluggish exports, the already low standards of living might be even further imperilled.

16/ These include Argentina, Burma, Chile, Kenya, Sri Lanka and Uruguay.

17/ In the short run, countries experiencing balance-of-payments difficulties may draw on their foreign exchange reserves, but this is an obviously limited source of finance. As noted above, as a result of thus drawing down their international reserves, a number of low-income developing countries began 1979 in the vulnerable position of not having enough reserves to finance more than two months of imports.

In 1978, when the current account deficit of non-oil-exporting developing countries grew by about 70 per cent, there were substantial offsetting net inflows on capital account. In aggregate, these inflows were sufficient not only to cover the deficit but to permit an increase in reserves of about $12 billion. At the same time, the group of oil-exporting countries experienced a marked deterioration in its over-all surplus and a number of major oil exporters ran substantial current account deficits. Not all developing countries, however, shared in the offsetting capital inflows, so that countries differed greatly in the extent to which they had to restrict imports or to use reserves, on the one hand, or could finance their deficits and even add to reserves through capital inflows, on the other hand.

The nature of the problem confronting many developing countries in regard to balance-of-payments financing has many facets. One important factor is the inadequate levels of external financing on a long-term basis; this has been partly reflected in an unsatisfactory debt structure and, more recently, in a heavy reliance on short-term and medium-term loans from private international capital markets. Thus in 1977, nearly 45 per cent of the net flow of resources to developing countries was credit from private sources, and preliminary figures for 1978 suggest that such net capital flows to developing countries grew more than twice as fast as net public flows.

As noted earlier, the greatly expanded use by developing countries of medium- and short-term finance in the mid 1970s was in response to adverse current account developments which were thought to be temporary. The inadequate recovery of the world economy and the debt problems of some developing countries have only emphasized that longer-term financing would have been much more appropriate. In spite of selected debt relief measures, 18/ this lesson is still germane. In addition, by no means all developing countries were in a position - or are yet in a position - to incur extensive external debt, since the major private investors and commercial banks in developed market economy countries have not found them to be acceptable "credit risks".

The disturbing nature of trends in long-term external finance apply to both the public and private flows. Thus, the generally longest-term source of private flows, namely, direct foreign investment, fell as a share of total flows in the second half of the 1970s, losing its position as the largest source of private finance to portfolio investment. 19/ Even among portfolio investments - a source

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18/ See "Review of progress made in the implementation of the International Development Strategy and in relation to General Assembly resolutions 3202 (S-VI), 3281 (XXIX) and 3362 (S-VII): report prepared by the Secretariat" (E/AC.54/22 and Corr.1, 16 March 1979), pp. 26-27.

19/ Having peaked at 28 per cent of total flows in 1973, direct investment fell to 20 per cent in 1976 and 19 per cent in 1977. See "Review of progress made in the implementation of the International Development Strategy ..." (E/AC.54/22/Add.1, 6 March 1979), table 27.

of finance which is open only to some developing countries - experience with regard to longer-term issues has deteriorated in the recent past. 20/

With respect to public flows, official development assistance fell from over 47 per cent of total resource transfers from developed market economies to developing countries in 1971 to 36 per cent in 1976 and 31 per cent in 1977. While the terms of ODA have improved over the decade, 21/ the trend in ODA volume has clearly been disappointing. For 1978, there does not seem to be evidence that there was any significant break in the past pattern. 22/ Developmental aid in 1978 from other donors is not expected to alter the over-all trend established by the countries comprising the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development.

Further, it is unlikely, based on available information on commitments and other flows, that total net transfers from multilateral agencies increased significantly in real terms in 1978. In this regard it is noteworthy that according to the Annual Report of the World Bank for the fiscal year ending 30 June 1978, net transfers from the World Bank and the International Development Association (IDA) fell to approximately $1.6 billion, a drop of about $0.5 billion from fiscal year 1976/1977. 23/

Despite the expanded current account deficits and the sluggish flows of long-term capital, the developing countries did not make extensive use of the facilities of the International Monetary Fund during 1978. This was in spite of the disbursal during the year of almost $1 billion through the Trust Fund established with proceeds from the sale of IMF gold holdings for the benefit of developing countries. In fact, as may be seen from table II-10, if Trust Fund loans are excluded, the net use of IMF credit by developing countries in 1978 was negative; there was, indeed, a net repayment of $130 million.

20/ According to World Bank data, in 1976 almost $300 million in foreign bonds were issued by developing countries in national markets of developed countries with maturities of 15 to 20 years, while none has been issued since. In the second quarter of 1977 a small volume, $2 million, carried a maturity over 25 years but, again, none has been issued since. On the Euro-bond market, no issues with maturities in excess of 15 years are recorded for the entire second half of the 1970s.

21/ See "Review of progress made in the implementation of the International Development Strategy ..." (E/AC.54/22 and Corr.1), pp. 22-25; and "Acceleration of the transfer of real resources to developing countries: report of the Secretary-General" (A/33/301, 26 October 1978).

22/ In 1977 the net outflow of ODA from developed market economy countries increased by only about 7 per cent in terms of current dollars.

23/ Over the same period, commitments by the World Bank and IDA increased by almost 11 per cent in real terms, and further increases were expected for the following year, so that with some acceleration in the rate of disbursement, the net transfer figure for calendar year 1978 may show some improvement.

Thus, neither IMF resources nor long-term capital flows can account for the increase in financing needed to cover the enlarged developing country current account deficits of 1978. At least for those countries with access to private capital markets, it was essentially medium- and short-term private credit flows which expanded to fill the gap. The composition of these private credit flows is not known exactly. However, they included external bond issues of developing countries, which grew by almost 25 per cent in 1978, according to data compiled by the World Bank. In addition, also according to World Bank data, gross issues to developing countries of syndicated Euro-currency bank credits, one form of international commercial bank lending, almost doubled in 1978, to a level of over $32 billion. Of these, $22 billion was borrowing by non-oil-exporting developing countries. Nevertheless, given a significant degree of refinancing in 1978 and the fact that credits are not necessarily completely used in the year obtained, the net flow was lower. The other major source of finance which helped to bridge the estimated current account deficit consisted of export credit of various types.

For those countries with effective access, the international commercial banks provided terms and conditions for borrowing that were an improvement over previous years. Certain countries which were facing large debt repayment obligations in 1978, such as Peru and the Philippines, were even able to reschedule their external private debt on improved terms. Argentina, which ran a current account surplus in 1978 and added significantly to reserves, also added approximately $1 billion to its external commercial bank indebtedness in the first three quarters of the year.

The majority of developing countries which significantly increased their outstanding debt to the international commercial banks during 1978 also suffered deteriorating trade balances. 24/ Some of these countries drew down previously accumulated reserves during the year, but roughly 60 per cent added to their reserves. A noteworthy example of the latter was Brazil, whose liabilities to the international commercial banks increased by almost $6 billion in the first three quarters of 1978 while its reserves rose by about $2.8 billion and its deficit on current account increased by $1.8 billion over the level for the same period in 1977.

A number of countries were able to combine capital inflows with varying combinations of other means of current account management. For example, although Burma obtained increased flows of credit from international commercial banks, it also drew down reserves and made use of IMF credit - principally, of the Trust Fund. The Philippines increased its private international borrowings while, at the same time, foreign exchange reserves increased and further recourse was made to IMF credit, including the Trust Fund and a drawing under the Buffer Stock facility to finance sugar stocks. In Nigeria, in spite of expanded capital market inflows and increased long-term official inflows, further restrictions on luxury imports were required and there was a substantial reduction in foreign exchange reserves.

Other countries, including some which had been able to borrow on the international capital market in the past, did not have effective access to that market in 1978. For these countries there was less manoeuverability in current

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24/ For example, of the 20 countries which increased their net borrowings in the first three quarters of 1978 by more than 10 per cent of their value of imports in 1977, 14 experienced a worsened trade balance in 1978.

account management. Certain countries, such as Kenya, experienced a large drop in reserves. Other countries, such as Zambia, whose reserves at the end of 1978 could cover less than one month's imports, drew more on IMF credit and were forced to make difficult policy adjustments.

It is clear that those countries with an adequate "credit rating" in the eyes of the international capital market enjoyed a considerable degree of flexibility in managing their current accounts. However, without either a reasonable recovery in export earnings or a much expanded supply of long-term financing, heavy borrowing can lead to heavy debt servicing burdens and a reduced access to further borrowing. In such cases, the temporary nature of the flexibility provided through private borrowing becomes painfully obvious. Countries in such a position then join the ranks of those that never had significant access to private markets and that remain dependent on public funds, including those provided through IMF as part of balance-of-payments adjustment packages.

In this regard, the willingness of countries having the option to rely on "autonomous" capital flows for managing current account deficits which are not sustainable over the long run has been a cause for concern. This concern was reflected in the first paragraph of the decision of the Executive Board of IMF on 2 March 1979, which stated, inter alia, that "Members should be encouraged to adopt corrective measures, which could be supported by use of the Fund's general resources in accordance with the Fund's policies, at an early stage of their balance-of-payments difficulties or as a precaution against the emergence of such difficulties." 25/

It remains to be seen to what extent Fund resources will be drawn upon other than in periods of "crisis" for individual borrowing countries or if there should be a general and sharp tightening of private international credit. In 1979 IMF has already implemented a substantial increase in lending authority through the entry into force of the Supplementary Financing Facility under which member countries can, in principle, borrow in total up to 430 per cent of the value of their IMF quotas, compared to a maximum of 290 per cent previously. 26/ The resources of IMF will be further enlarged on completion of the seventh General Review of Quotas under which a 50 per cent increase in quotas is expected. The enlargement of IMF resources is made in the light of the recognized need to expand available finance for balance-of-payments adjustment. However, for such resources to be fully used in a timely manner, they must be provided on terms and conditions which are seen to be preferable to those entailed in reliance on the private capital markets. In 1978 this was apparently not the case for a number of developing countries.

25/ IMF Survey, 19 March 1979, p. 82.

26/ This includes borrowing under the credit tranches, the extended facility, compensatory financing and buffer stock financing facilities. It excludes borrowing under the Trust Fund whose availability depends on the resources to be made available to the Fund through gold sales and other income.

Lending by international commercial banks 27/

Over the current decade, the international commercial banking system has assumed prominence both as a supplier of medium-term credit to a number of the developing countries and as a depository of their external liquid assets. Thus, as may be seen in table II-11, at the end of December 1977, loans outstanding to developing countries as a whole reached $137.8 billion. At the same time, total deposits reached almost $140 billion, so that developing countries were net creditors to the banks by over $2 billion. Significantly, by the end of September 1978, developing countries as a whole switched to a net debtor position of about $10 billion as they added over $23 billion to their borrowings. At the same time, deposits rose by over $10 billion, partly reflecting the increase in the external liquid assets of a number of developing countries and partly as an adjustment in the composition and valuation of those assets.

Oil-exporting countries reduced their net stock of funds held in the international commercial banking market from almost $39 billion at the end of December 1977 to under $29 billion by the end of September 1978. This was accomplished almost entirely through an increase in borrowing from international commercial banks, since total deposits valued in dollars showed almost no change over this period, a marked contrast to their behaviour over the same period of the previous year when oil exporters' deposits grew by almost 14 per cent. It is quite likely, however, that the diminishing role which oil exporters played in 1978 as a net supplier of funds may be arrested in 1979 as a result of oil price increases.

Non-oil-exporting developing countries, partly as a consequence of the widening current account deficits and relatively sluggish supply of resources of a long-term nature, accelerated the rate of borrowing from the international commercial banking community in 1978. Borrowings for the first three quarters of 1978 rose by $13.4 billion, entailing a rate of increase almost twice that for the comparable period in 1977.

At least some developing countries were borrowing in order to increase their reserves, since, as mentioned above, they continued to accumulate gross reserves while financing increased payments deficits with borrowed funds. 28/ This partly

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27/ Lending by international commercial banks is defined to include Euro-currency loans and other international commercial bank lending. The Euro-currency market is comprised of bank deposits and loans in foreign currencies while other international commercial bank lending includes non-resident deposits and loans in domestic currency (including special non-resident domestic currency accounts such as Japanese "free yen" deposits). The banks comprising this market are located principally in Europe, Japan, Canada, the United States and certain "off-shore banking centres" (see foot-note a to table II-11).

28/ It should be noted that the increase in developing country net debtor positions with the international commercial banks as reported by the Bank for International Settlements (BIS) does not necessarily reflect the net contribution of foreign commercial banks to the financing of current account deficits. For example, on the one hand, not all foreign commercial bank lending is reported to BIS and, on the other hand, changes in developing country foreign bank deposits may include reallocations of reserves as between bank and non-bank placements as well as changes in the levels of reserves themselves.

reflects the uncertainty surrounding export prospects and current account positions for 1979 and partly the easy borrowing terms on the Euro-currency markets. The first factor was discussed above; what follows is a brief discussion of how borrowing terms improved during 1978.

First, it may be noted that the original maturity of loans lengthened considerably in 1978. Thus, whereas from 1975 to 1977, according to World Bank data, no more than 8 to 9 per cent of the value of developing country Euro-currency credits were known to have had maturities over seven years, in 1978 the share of credits with known maturities over seven years was over 62 per cent. In the fourth quarter of 1978, more than 75 per cent of developing country Euro-currency credits carried maturities of over seven years.

The interest cost of new Euro-currency loans also improved in 1978 compared to the rate of interest on loans outstanding from previous years' borrowings. Almost all developing country Euro-currency borrowings carry variable interest rate charges calculated in terms of a varying base interest rate plus a fixed percentage premium, or "spread", and recently, these spreads have narrowed considerably. 29/

Even when spreads narrow, the cost of borrowing can rise if the interest rate base itself rises sufficiently. In fact, the three-month Euro-dollar deposit rate in London rose from 7.2 per cent in December 1977 to 11.7 per cent in December 1978, and a somewhat larger rise was recorded by Euro-sterling. As a result, existing variable-interest-rate Euro-currency loans denominated in dollars and sterling became more expensive to service in nominal terms. Nevertheless, although interest rates for Euro-loans in these currencies ended the year at relatively high levels, interest rates for Euro-currency transactions in French francs, Deutsche mark, Swiss francs and yen either grew by less or declined absolutely over the year. In short, there did not seem to be a general shortage of liquidity on the Euro-currency markets. It would seem that the high Euro-dollar and Euro-sterling interest rates posted in 1978 did not reflect any significant increase in the anticipated real cost of servicing credits undertaken but rather reflected the short-run speculation against the dollar and domestic monetary conditions in the United States and the United Kingdom.

The relative easiness of the situation also led to the prepayment of loans in exchange for new ones with lengthened maturities. Thus, it can be expected that the maturity distribution of borrowings from the Euro-currency market as of the middle of 1979 will improve upon the distribution as of the middle of 1978. The latter could have become a cause for concern. In fact, well over half the international commercial bank loans of developing countries in the Middle East and other Asian developing countries were scheduled for repayment by the end of June 1979. Latin America and Africa were in somewhat more favourable positions with about 40 per cent and 30 per cent, respectively, of their loans falling due by

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29/ For example, in 1975 and 1976 the spreads of Euro-currency credits issued to developing countries were all above 1 percentage point, and in 1977 only 19 per cent of the value of those credits had a spread of 1 percentage point or less; in 1978 almost one half of developing country Euro-currency credits had spreads up to 1 percentage point.

the end of June 1979. For the developing countries as a whole, the view as of mid 1978 was that well over half the total Euro-currency loans outstanding had to be repaid by the end of June 1980. 30/

Although the over-all terms of lending by international commercial banks may have improved during 1978, it was still the case that developing countries were not all equally placed to take advantage of the borrowing opportunities thus provided. More precisely, the least developed and other low-income developing countries (those with per capita incomes below $300 in 1975) have been unable to expand their Euro-currency borrowings from international commercial banks at the same rate as other developing countries. As may be seen in table II-12, gross borrowing by those developing countries dropped to an insignificant share of total Euro-currency lending to developing countries. Comparing their share of borrowing in the early 1970s with their share since 1975, it is clear that those countries have not adequately participated in the growth of such lending to developing countries through the 1970s. The countries which have had regular access to the Euro-currency market were principally oil-exporting and middle- and higher-income non-oil-exporting countries.

However, even for countries which have had regular and expanding access to Euro-currency credits, the favourable developments of 1978 do not necessarily imply a sanguine future. The willingness of banks to lend and the terms of lending depend, on the one hand, on the banks' views of the credit-worthiness of the borrower and, on the other hand, on the supply of funds coming into the banks. Credit-worthiness, although usually linked to sound domestic practices in the fiscal and monetary fields, is not completely independent of the vagaries of international markets, particularly the export outlook. Moreover, even countries which satisfy all the bankers' preferences for a "good credit risk" would have to pay higher interest costs and accept loans of shorter maturities if the over-all supply of loanable funds tightened or if the demand of preferred customers in developed countries - where the banks are mainly located - picked up sufficiently.

External bond financing

For a number of developing countries, an alternative to borrowing through the intermediary of international commercial banks is to borrow directly through sales of bonds to foreign purchasers. Traditionally, such bonds were primarily sold in the national bond markets of certain developed countries or were privately placed with investors in those countries. The nominal amounts raised through such "foreign bonds" almost quintupled between 1972 and 1977, particularly as a result of growth surges in 1976 and 1977. In the contemporary period, sales of Euro-currency bonds 31/ have also been an important source of external finance.

30/ According to data from the Bank for International Settlements. (In these figures Egypt and the Libyan Arab Jamahiriya are included in the Middle East.)

31/ Essentially, these are bonds sold outside the country in whose currency the bond is denominated, e.g., dollar-denominated bonds issued from Luxembourg and purchased by investors with dollar deposits in banks outside the United States. They are generally placed simultaneously on the markets of at least two countries by international financial syndicates.

Nominal amounts raised through such "international bonds" similarly almost quintupled from 1972 to 1977. For 1978, it appears that the rate of expansion of both types of external bonds slowed considerably. Nevertheless, by posting an increase of about 25 per cent, external bonds were still among the most dynamic sources of external capital inflows in 1978 (see table II-13).

As with Euro-currency credits, not all developing countries have had access to these sources of funds. In particular, since 1976 no lower-income developing country has sold an external bond issue on the foreign or international bond markets through public or private placements. Prior to that, only a small number of lower-income countries succeeded in making use of the market, 32/ never accounting for more than a small proportion of the funds raised by developing countries through these channels.

It has been the oil-exporting countries which over the past two years have most rapidly expanded their external bond offerings. From a level of $177 million in external bonds issued in 1974, oil exports' bonds rose to $794 million in 1977 and $1,714.8 million in 1978. As a result, their share of total developing country external bond issues reached almost 33 per cent in 1978, compared with roughly 10 per cent from 1972 to 1976.

For those developing countries which have had access to the external bond market, funds have been provided for a variety of uses, including, in certain cases, balance-of-payments support. According to data assembled by the World Bank, over 60 per cent of foreign bonds and 42 per cent of international bonds offered by developing countries in 1978 were general-purpose borrowings which could have been used for a variety of development-related current and investment expenditure. As with Euro-currency credits, a preponderant share of the borrowing was by the public sector itself. World Bank data indicate that from 1975 to 1978, between 71 and 76 per cent of developing country international bond issues were by Governments and non-monetary public sector entities. The share of Governments and the non-monetary public sector in foreign bond issues was even higher, ranging from 83 to 97 per cent over the same period.

With respect to yields and maturities, the external bond market showed some improvement in 1978. While the average initial offering yields on external bonds of developing countries experienced a slight drop, the weighted average of original maturities for all external bonds rose significantly. This rise in maturities, however, did not fundamentally alter the medium-term character of this market. In fact, although maturities lengthened considerably in 1978 with respect to previous years, the weighted average of original maturities of foreign bonds of developing countries reached approximately nine years, and the corresponding maturities for international bonds of developing countries was approximately eight years.

32/ They were Guinea, which raised $30 million on the international market in 1972 and 1973; India, which raised $2.5 million on the foreign market in 1973; Sudan, which raised $23.6 million on the foreign market in 1973 and $8.6 million on the international market in 1975; and Zaire, which raised $13 million on the international market in 1973. (Information according to data recorded by the World Bank.)

Table II-1. Annual rate of growth of gross domestic product in developing countries, in constant 1970 prices

(Percentage)

Region and country group	1971-1975	1976	1977	1978 a/
Africa	4.4	5.5	5.2	3.2
South and East Asia	4.9	5.3	6.6	5.9
Western Asia	10.9	12.3	9.8	1.1
Western Hemisphere	6.8	4.8	4.5	4.5
All developing countries b/	6.2	5.7	5.9	4.0
Oil-exporting c/	8.6	10.8	9.4	2.7
Non-oil-exporting	5.7	4.6	4.7	4.6

Source: Estimates prepared by the Centre for Development Planning, Projections and Policies of the United Nations Secretariat.

a/ Preliminary.

b/ Africa, South and East Asia, Western Asia, western hemisphere and Yugoslavia.

c/ Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates, Venezuela.

Table II-2. Developing countries: agricultural production, 1971-1978

(Percentage change from preceding year)

Region	Average, 1971-1978 a/	1975	1976	1977	1978 a/
Developing countries . .	2.5	4.6	1.8	3.4	2.5
Africa	1.5	-	3.8	-1.8	3.7
Latin America	3.0	1.8	2.6	5.1	3.2
Near East	3.1	4.4	5.1	-0.8	2.4
Far East	2.6	8.5	-0.9	6.1	2.5
Other developing countries	2.6	1.8	4.4	2.5	0.8

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the Food and Agriculture Organization of the United Nations.

a/ Preliminary.

Table II-3. Developing countries: food production, 1971-1978

(Percentage change from preceding year)

Region	Average, 1971-1978 a/	1975	1976	1977	1978 a/
Developing countries . . .	2.7	5.5	1.7	3.4	3.3
Africa	1.5	-	3.8	-1.8	4.6
Latin America	3.1	3.5	4.3	3.3	3.2
Near East	3.3	5.3	5.0	-0.8	2.4
Far East	2.8	8.5	-	7.0	2.4
Other developing countries	2.4	2.7	3.5	2.6	0.8

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the Food and Agriculture Organization of the United Nations.

a/ Preliminary.

Table II-4. Developing countries: industrial production, 1971-1978

(Percentage change from corresponding period of preceding year)

Component and period	Developing countries a/	Western hemisphere	Asia a/
Industry b/			
Average, 1971-1978	6.2	...	7.8
1975	1.5	0.7	1.4
1976	8.0	5.8	11.3
1977	4.7	3.4	7.6
1978	4.6 c/	...	7.5 c/
First quarter	4.0	...	7.2
Second quarter	5.2	...	7.9
Third quarter	...	...	...
Mining			
Average, 1971-1978	3.9	...	5.1
1975	-8.8	-5.6	-9.5
1976	10.5	3.9	13.4
1977	4.0	5.7	2.6
1978	-3.5 c/	4.0 c/	-4.3 c/
First quarter	-3.8	5.3	-4.6
Second quarter	-3.1	2.7	-3.9
Third quarter	...	...	...
Manufacturing			
Average, 1971-1978	6.9	...	8.6
1975	2.9	1.4	5.2
1976	7.0	5.6	11.3
1977	5.3	2.7	8.9
1978	6.5 c/	...	12.6 c/
First quarter	5.3	...	11.7
Second quarter	7.6	...	13.4
Third quarter	...	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Monthly Bulletin of Statistics (February 1979), special table A.

a/ As defined in table I-1, except that Israel and Yugoslavia are included with the developed market economies and Turkey with the developing countries.

b/ ISIC 2-4.

c/ Growth rates based on first half year over corresponding period of preceding year.

Table II-5. Developing countries: distribution of increases in the consumer price index a/

Percentage rate of increase in the consumer price index	Number of countries 1971	1975	1976	1977	1978
5.0 or less	50	5	23	11	13
5.1 - 10.0	23	19	23	27	35
10.1 - 20.0	10	42	29	32	26
20.1 - 30.0	3	12	4	7	3
30.1 or over	1	9	8	10	10
Total b/	87	87	87	87	87

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, various issues.

a/ Average annual rate of increase. (In a few countries average annual rate of increase from January up to the last month for which information is available in 1978 compared to the corresponding months in 1977.)

b/ Afghanistan, Antigua, Argentina, Bahamas, Bangladesh, Barbados, Bolivia, Botswana, Brazil, Burma, Cape Verde, Central African Empire, Chad, Chile, Colombia, Costa Rica, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Ethiopia, Fiji, French Guiana, Gambia, Ghana, Guadaloupe, Guatemala, Guyana, Haiti, Honduras, Hong Kong, India, Indonesia, Iran, Iraq, Israel, Ivory Coast, Jamaica, Jordan, Kenya, Kuwait, Lesotho, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Malaysia, Martinique, Mauritania, Mauritius, Mexico, Morocco, Nepal, Netherlands Antilles, Nicaragua, Niger, Nigeria, Pakistan, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Republic of Korea, Réunion, Senegal, Seychelles, Sierra Leone, Singapore, Somalia, Southern Rhodesia, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Thailand, Togo, Trinidad and Tobago, Tunisia, United Republic of Cameroon, United Republic of Tanzania, Uruguay, Venezuela, Yugoslavia, Zaire, Zambia.

Table II-6. Developing countries: value of exports and imports, 1971-1978 a/

Region and item	Value (billions of dollars)			Percentage change from preceding year			
	1976	1977	1978 b/	Average, 1971-1977	1976	1977	1978 b/
Developing countries c/							
Exports	252.5	287.8	295.4	26.4	22.0	14.0	2.6
Imports	214.4	259.4	306.7	23.5	8.8	21.0	18.2
Balance	38.1	28.4	-11.3	...	...	...	...
Oil-exporting countries d/							
Exports	138.9	152.1	146.5	34.4	20.5	9.5	-3.7
Imports	67.8	89.6	104.9	34.9	21.9	32.1	17.2
Balance	71.1	62.6	41.6	..	...	...	...
Others c/							
Exports	113.6	135.7	148.9	20.2	23.7	19.5	9.7
Imports	146.6	169.8	201.8	19.6	3.6	15.8	18.8
Balance	-33.0	-34.1	-52.9	...	...	...	...
Western hemisphere							
Exports	47.7	54.6	54.6	19.0	14.2	14.5	-0.1
Imports	57.5	62.7	69.3	19.8	4.1	9.0	10.4
Balance	-9.8	-8.1	-14.7	...	...	...	...
Oil-exporting countries d/							
Exports	12.7	13.0	12.0	21.0	10.4	2.2	-7.1
Imports	10.0	13.7	14.7	25.4	18.1	37.8	6.7
Balance	2.7	-0.8	-2.6	...	...	...	...
Others							
Exports	35.0	41.7	42.5	18.4	15.6	18.9	2.1
Imports	47.6	49.0	54.6	18.5	1.5	3.0	11.5
Balance	-12.5	-7.3	-12.1	...	...	...	...

Table II-6 (continued)

Region and item	Value (billions of dollars)			Percentage change from preceding year			
	1976	1977	1978 b/	Average, 1971-1977	1976	1977	1978 b/
Africa							
Exports	41.1	49.2	47.8	20.4	20.8	19.7	-2.8
Imports	39.1	52.2	61.9	24.8	1.5	33.6	18.5
Balance	2.0	-3.0	-14.1	...	...	...	...
Oil-exporting countries d/							
Exports	24.9	28.5	27.1	26.8	29.2	14.7	-5.0
Imports	17.2	23.7	26.5	34.4	7.6	37.2	12.1
Balance	7.6	4.9	0.6	...	...	...	...
Others							
Exports	16.2	20.7	20.7	14.5	10.0	27.4	0.3
Imports	21.9	28.6	35.4	19.7	-2.8	30.7	23.9
Balance	-5.6	-7.9	-14.7	...	...	...	...
Western Asia							
Exports	97.2	104.9	102.2	38.8	20.3	8.0	-2.6
Imports	45.4	59.0	71.8	33.9	22.0	29.9	21.7
Balance	51.8	45.9	30.4	...	...	...	...
Oil-exporting countries d/							
Exports	92.8	99.8	96.3	40.6	21.5	7.5	-3.5
Imports	34.9	45.9	56.5	41.1	33.7	31.6	22.9
Balance	57.9	53.9	39.8	...	...	...	...
Others							
Exports	4.3	5.1	5.9	20.9	0.1	18.4	14.3
Imports	10.5	13.1	15.3	20.6	-5.5	24.5	17.2
Balance	-6.1	-7.9	-9.4	...	...	...	...

Table II-6 (continued)

Region and item	Value (billions of dollars) 1976	1977	1978 b/	Percentage change from preceding year Average, 1971-1977	1976	1977	1978 b/
South and East Asia							
Exports	61.6	73.7	85.3	25.5	32.4	19.7	15.7
Imports	64.9	75.8	94.0	21.0	11.3	16.7	24.1
Balance	-3.3	-2.0	-8.7	...	...	...	...
Oil-exporting countries d/							
Exports	8.5	10.9	11.1	36.2	5.0	27.0	2.3
Imports	5.7	6.2	7.3	28.3	12.6	9.8	17.3
Balance	2.9	4.6	3.8	..	...	...	...
Others							
Exports	53.0	62.9	74.2	24.2	38.8	18.6	18.0
Imports	59.3	69.6	86.7	20.5	11.2	17.4	24.7
Balance	-6.2	-6.7	-12.5	...	...	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund International Financial Statistics (Washington, D.C.).

a/ Exports f.o.b.; imports c.i.f.

b/ Preliminary.

c/ Regional figures do not add to the total because of the inclusion of Yugoslavia.

d/ Western hemisphere: Ecuador, Trinidad and Tobago, and Venezuela; Africa: Algeria, Gabon, Libyan Arab Jamahiriya and Nigeria; Western Asia: Bahrain, Iran, Iraq, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates; South and East Asia: Brunei and Indonesia.

Table II-7. Indices of market prices of principal commodity exports of developing countries

(Current dollars, 1972 = 100, except as otherwise indicated)

	Food	Tropical beverages	Vegetable oil seeds and oils	Agricultural raw materials	Minerals, ores and metals	TOTAL
1977						
I	135	505	239	213	179	251
II	134	562	279	213	174	265
III	121	473	205	208	170	234
IV	123	421	204	205	179	225
1978						
I	142	376	233	216	176	224
II	143	350	261	221	177	221
III	134	333	262	237	188	221
IV	144	354	284	252	204	263
1977	128	490	232	210	176	243
1978	141	353	260	231	186	225
Percentage change from 1977 to 1978	10.2	-28.0	12.1	10.0	5.7	-7.4

Source: United Nations Conference on Trade and Development, Monthly Commodity Price Bulletin (Geneva, February 1979).

Table II-8. Developing countries: balance-of-payments summary, 1974-1978 a/

(Billions of dollars)

Country group and year	Balance of trade b/	Balance of services and private transfers c/	Balance on current account	Net capital flow d/	Change in reserves
Developing countries e/					
1974	50.5	-13.8	36.7	-1.8	34.8
1975	10.0	-13.9	-3.9	12.0	8.1
1976	38.1	-22.1	16.0	5.3	21.3
1977	28.4	-16.5	11.9	10.1	22.0
1978	-11.3	...	...	...	-3.0
Oil-exporting developing countries					
1974	87.0	-19.6	67.4	-34.7	32.7
1975	59.7	-24.9	34.8	-24.8	10.0
1976	71.1	-30.0	41.1	-31.8	9.3
1977	62.6	-27.2	35.3	-24.5	10.8
1978	41.6	...	...	...	-15.5
Non-oil-exporting developing countries e/					
1974	-36.5	5.8	-30.7	32.9	2.2
1975	-49.7	11.0	-38.7	36.8	-1.9
1976	-33.0	7.9	-25.1	37.1	12.0
1977	-34.1	10.7	-23.4	34.6	11.2
1978	-52.9	13.0	-39.9 f/	52.4	12.5
Western hemisphere					
1974	-14.2	1.1	-13.1	12.5	-0.6
1975	-16.5	0.1	-16.5	14.3	-2.2
1976	-12.5	0.6	-11.9	16.6	4.7
1977	-7.3	-1.0	-8.3	12.8	4.5
1978	-12.1	2.9	-9.2 f/	15.6	6.4
Africa					
1974	-1.9	-2.0	-3.9	4.2	0.3
1975	-7.7	-0.7	-8.4	8.1	-0.3
1976	-5.6	-1.0	-6.6	7.0	0.4
1977	-7.9	0.5	-7.4	8.4	1.0
1978	-14.7	...	...	...	0.0

Table II-8 (continued)

Country group and year	Balance of trade b/	Balance of services and private transfers c/	Balance on current account	Net capital flow d/	Change in reserves
Western Asia					
1974	-5.6	2.7	-2.9	3.4	0.5
1975	-6.8	2.4	-4.3	4.7	0.4
1976	-6.1	2.4	-3.7	4.0	0.3
1977	-7.9	4.2	-3.8	5.1	1.4
1978	-9.4	...	...	...	1.8
South and East Asia					
1974	-11.1	1.5	-9.6	11.7	2.1
1975	-15.1	6.6	-8.5	9.0	0.5
1976	-6.2	3.1	-3.1	8.5	5.4
1977	-6.7	4.5	-2.2	6.4	4.2
1978	-12.5	...	...	...	3.9

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, Annual Report, 1978 and International Financial Statistics (Washington, D.C.).

a/ Data for 1978 are preliminary.

b/ Exports, f.o.b. minus imports, c.i.f.

c/ The balance of services and private transfers is computed as the difference between the trade balance and the current account balance.

d/ Net capital inflow is computed residually as the difference between the balance financed by transaction in reserve assets and the current account balance. It includes government transfers, reported capital movement and errors and omissions.

e/ Including Yugoslavia.

f/ Preliminary estimate.

Table II-9. Developing countries: average rate of growth in the value of exports in the 12-month period ending in the quarter indicated

(Percentage)

	Total	Non-oil-exporting countries	Oil-exporting countries
1976			
IV	6.2	7.1	5.6
1977			
I	5.5	7.1	4.2
II	4.2	6.1	2.8
III	2.7	4.1	1.6
IV	1.1	2.9	-0.3
1978			
I	-0.6	0.9	-1.8
II	-0.2	1.0	-1.2
III	1.0	2.8	-0.6
IV	...	...	-0.1

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues.

Table II-10. Net borrowing through IMF by non-oil-exporting developing country regions, 1978

(Billions of dollars)

	Use of Fund credit a/	Trust Fund loans	Total
Latin America and the Caribbean	-.53	.03	-.50
Africa	.41	.47	.88
Asia	-.01	.41	.40
Total	-.13	.91	.78

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data in International Monetary Fund, International Financial Statistics, various issues.

a/ Net drawings during 1978 from credit tranches, compensatory financing, buffer stock, extended and oil facilities.

Table II-11. Lending by international commercial banks to developing countries, a/ 1977 and 1978

(Billions of dollars, except as otherwise indicated)

	Levels outstanding						Percentage growth, first three quarters			
	End of December 1977 b/			End of September 1978			Loans		Deposits	
	Loans	Deposits	Net debtor position	Loans	Deposits	Net debtor position	1977	1978	1977	1978
Oil exporters	39.1	77.9	-38.8	48.9	77.4	-28.5	32	25	14	-1
Non-oil exporters	98.7	62.0	36.7	112.1	73.1	39.0	7	14	16	18
Latin America and the Caribbean	65.9	25.2	40.7	74.4	30.4	44.0	5	13	6	21
Middle East	5.2	10.0	-4.8	5.3	12.1	-6.8	-5	2	27	21
Other Asia	20.5	20.1	0.4	22.7	23.4	-0.7	16	11	25	16
Other Africa	7.1	6.7	0.4	9.7	7.2	2.5	11	37	19	7
Total developing countries	137.8	139.9	-2.1	161.0	150.5	10.5	13	17	15	8
Developing countries' share of total (percentage)	19.9	20.8		20.0	19.6					

Source: Bank for International Settlements, "International banking developments - third quarter 1978" (2 March 1979).

a/ External positions in domestic and foreign currencies of banks in the reporting area and of off-shore branches of United States banks in the Bahamas, Cayman Islands, Panama, Hong Kong, Singapore and, from December 1977 to March 1978, Lebanon. For 1977, the reporting area included the United States, Canada, Japan, Belgium-Luxembourg, France, Germany, Federal Republic of, Italy, the Netherlands, Sweden, Switzerland and the United Kingdom. For 1978, it also includes Austria, Denmark and Ireland. Off-shore banking centres are excluded from figures shown for developing countries. The non-oil Middle East includes Egypt, Israel, Jordan, Lebanon (except as above), Syrian Arab Republic, Democratic Yemen and Yemen. Oil exporters comprise Algeria, Bahrain, Brunei, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libyan Arab Jamahiriya, Nigeria, Oman, Qatar, Saudi Arabia, Trinidad and Tobago, United Arab Emirates and Venezuela.

b/ Coverage is of 1978 reporting area.

Table II-12. Publicized Euro-currency credits to developing countries, 1972-1978: amounts and distribution

	1972	1973	1974	1975	1976	1977	1978
Percentage distribution							
Oil-exporting countries	36	40	11	29	26	36	32
Non-oil-exporting countries: a/	64	60	89	71	74	64	68
Higher-income	50	46	62	58	54	44	52
Middle-income	9	10	23	12	20	19	16
Lower-income	5	4	4	1	-	1	-
Total lending to developing countries (millions of dollars or equivalent)	3 275.8	6 987.3	7 365.0	10 991.4	14 304.4	16 815.2	32 688.9
Total lending to developing countries as share of total (percentage)	37	34	26	54	50	49	46

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the World Bank.

a/ Countries with *per capita* GDP in 1975 of less than $300 are lower-income; countries with *per capita* GDP in 1975 between $300 and $700 are middle-income; countries with *per capita* GDP in 1975 above $700 are higher-income.

Table II-13. Distribution of foreign and international bonds issued by developing countries, 1972-1978

(Millions of dollars)

Item	1972	1973	1974	1975	1976	1977	1978
Total foreign bonds	339	751	722	548	908	1 600	2 058
Total international bonds	493	442	96	243	986	2 412	2 939
Total external bond issues	832	1 193	818	791	1 894	4 013	4 998
Oil-exporting countries	85	125	63	68	177	794	1 715
Non-oil-exporting countries: a/	747	1 068	755	723	1 717	3 219	3 283
Higher-income	667	891	714	682	1 230	2 975	2 801
Middle-income	50	108	41	33	486	244	482
Lower-income	30	69	-	9	-	-	-
Developing country share of world external bond issues (percentage)	7.3	11.9	6.7	3.5	5.5	11.1	13.6

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on data supplied by the World Bank.

Note: Figures are rounded.

a/ Foot-note a to table II-12.

Chapter III

THE DEVELOPED MARKET ECONOMIES

Summary

Recovery from the 1973-1975 recession in the developed market economies has been sluggish and is far from complete, and output growth rates for the period 1975-1978 were substantially below their long-term trends. The failure of private fixed investment to pick up in line with historical experience during recovery periods in practically all countries (with the exception of the United States of America) to a large extent explains the weakness of the recent economic expansion. The main stimulus to demand has come from consumer expenditure, and even this source has tended to weaken in the past two years.

Since the recession, the worsening of the unemployment/inflation trade-off has confronted policy makers with a difficult dilemma which they have not been able to solve by recourse to either conventional monetary and fiscal policies or various forms of incomes policies. Inflation and unemployment have risen to historically unprecedented levels, and they have remained stubbornly high during the current recovery. While non-cyclical increases in labour-force participation rates may have influenced unemployment rates in some countries, the main factor explaining their high levels is the weakness in the recovery itself. During 1978, unemployment rates outside North America either rose somewhat or remained unchanged. Despite weakness in primary commodity prices, an unchanged price for crude petroleum and moderation in wage settlements in 1978, inflation rates declined only marginally on average and rose in a number of countries, including the United States, Canada and France.

The recovery has been marked by large payments imbalances between countries, resulting in sharp fluctuations in exchange rates which, however, have so far not corrected the disequilibria. Thus while some countries - the Federal Republic of Germany, Japan and Switzerland - have tended to have increasing surpluses on current account, the United States has had a rising deficit. The other major industrial countries (with the exception of Canada) have swung from large deficits to substantial surpluses, and the smaller countries have reduced their large deficits to more manageable proportions. These changes in the external position of the latter two groups of countries have been accomplished through restrictive economic policies and at the price of substantial unemployment.

Developments in recent years show that the international community has not yet found appropriate ways of collectively dealing with payments imbalances. In the first place, divergent rates of growth and of inflation among countries have given rise to sharp exchange rate fluctuations which, in turn, are slow in yielding desirable effects on external balances and may have contributed to the sense of uncertainty that has inhibited investment. Secondly, the adjustment process, as it has been operating recently, appears to have introduced a serious deflationary bias into the international economy. On the one hand, the preference for current account surpluses and the fear of inflation have kept a number of countries (and particularly those in strong surplus) from providing adequate stimulus to aggregate demand and imports. On the other hand, deficit countries

must institute deflationary policies to correct their external imbalances. Moreover, during 1978 the United States, whose more expansionary policies since the beginning of the recovery had provided the major external stimulus to world economic activity, was forced by rising inflation and a sharp depreciation of the dollar to abandon its passive stance as the main reserve currency country and to take strong deflationary measures. This implies that a large share of the adjustment in external imbalances will fall on a deceleration of output in the United States, with adverse consequences for the entire world economy.

Thus the prospects for the near future are not encouraging. Given the deceleration expected in the United States and the poor prospects for the European economies and Japan, the average rate of growth of GNP in the developed market economies may turn out to be substantially below the poor levels attained in the past two years. Further, the recent rise in oil prices is likely to have additional deflationary effects on the world economy, unless appropriate offsetting measures are taken.

The growth of production and demand

The slow-down in the recovery from recession experienced by the developed market economies during 1977 was extended into 1978. As can be seen in the accompanying table (for growth rates of individual major industrial countries, see table III-1), the over-all growth of GDP was only slightly higher than 3 1/2 per cent for the second year in succession. The sluggishness of the recovery is underscored by the fact that growth since the beginning of the recovery in 1975 has been below long-term trends in all groups of countries, and particularly so in the smaller countries, where economic policies have been constrained by high inflation rates and large current account deficits and where exports have been hampered by the weakness of demand in the major industrial countries.

For the group of major industrial countries as a whole, economic growth in 1978, at 3.8 per cent, was no better than in 1977. In the United States the growth of GNP declined by almost a full percentage point, mainly as a consequence of extremely cold winter weather and a coal strike during the first quarter. While growth performance improved somewhat in Canada, it continued to be hampered by policies designed to curb inflation. In the major European countries and Japan, growth rates were slightly higher than the year before, as a result of more expansionary demand management policies. However, policies continued to be dominated by the goal of reducing inflation, investment did not show signs of improving substantially and a decline in exports after the first quarter of the year affected growth performance in Japan.

Economic growth in the smaller developed market economies was adversely affected by the slow progress of recovery in the large industrial economies of the European Economic Community. In addition, economic policies were geared to the control of inflation and the reduction of large current account deficits. Only Greece and Ireland could be considered to have recovered their growth momentum.

Developed market economies: rates of growth of GDP, a/ 1961-1978

(Percentage)

	Developed market economies	Major industrial countries b/	Other industrial countries c/	Primary producing countries d/
1961-1970	5.0	4.9	4.8	6.1
1971-1978 e/	3.4	3.5	2.6	4.2
1976-1978 e/	4.1	4.5	2.3	3.0
1976	5.3	5.7	3.5	3.5
1977	3.6	3.9	1.5	2.8
1978 e/	3.6	3.8	1.8	2.7

Source: See table III-1.

a/ GNP for Belgium, Canada, Germany, Federal Republic of, Iceland, Japan, Netherlands, Switzerland, Turkey, United States.

b/ Canada, France, Germany, Federal Republic of, Italy, Japan, United Kingdom, United States.

c/ Austria, Belgium, Denmark, Finland, Luxembourg, Netherlands, Norway, Sweden, Switzerland.

d/ Australia, Greece, Iceland, Ireland, New Zealand, Portugal, South Africa, Spain, Turkey.

e/ Estimate.

The slow pace of economic growth in almost all the developed market economies, and particularly in Europe, was reflected in the trends of industrial production (see table III-2). The disparity between the performance of the major industrial and the smaller European industrial countries was even more marked than with GDP growth. Industrial production in the latter group of countries was, in the first half of 1978, below its levels of a year earlier, while in the former group it was about 3 per cent above. In all the industrial countries, important industries such as textiles, steel and ship-building continued in recession, with little immediate prospect of significant recovery.

In order to explain the probable causes of the sluggishness of the recovery in the developed market economies, it is useful to distinguish the factors operating on the demand side from those affecting supply. The latter determine the expansion of potential output, which in its turn depends on the growth in the level and productivity of the primary factors of production, namely, capital and labour. On the other hand, the difference between potential and actual output (or the degree of employment of productive factors) depends on the state of aggregate demand.

The growth of potential output appears to have declined in the period since 1973, and the fundamental factor explaining this deceleration appears to be the behaviour of fixed investment. The low rates of investment in evidence in most countries have not only resulted in lower rates of capital accumulation but they are also likely to have affected the trend rates of growth of labour and capital productivity. Since technological innovation usually accompanies capital accumulation, the investment trends observed since 1973 may have caused a decline in the rate of growth of productivity.

Potential output may have been adversely affected by a number of other factors. In the first place, it is possible that a once-and-for-all downward adjustment of potential output took place after the increase in energy prices in 1973-1974 made obsolete a share of the more energy-intensive portions of the capital stock. Secondly, the long-term shift of employment away from the industrial sector and towards lower-productivity sectors such as services appears to have gained momentum since the onset of the recession. Thirdly. employment-supporting measures and employee-protection legislation in a number of countries may have also retarded the growth of labour productivity. Fourthly, an increasing share of investment has been allocated to satisfying environmental and safety regulations, the output of which is not measured in GNP.

The behaviour of investment not only affects the growth of potential output but is also an important determinant of the levels of aggregate demand. In fact, one of the main reasons for the continued sluggishness in the growth of both GNP and industrial production has been the disappointing performance of gross domestic fixed capital formation. The high levels of capacity under-utilization in almost all of the major industrial countries, with the exception of the United States, provide much of the explanation. Moreover, the continuing high rates of inflation and wide fluctuations in exchange rates, by introducing added uncertainties, have made businesses very cautious about investing in new capacity. The failure of government action to revive either the national or the global economy has also helped to depress expectations and therefore investment. As table III-3 shows, only in Japan and, to a much less extent, in the Federal Republic of Germany and the United States, did fixed investment make an important contribution to economic growth in 1978. In Japan, the increases in house-building and in government capital formation, of 11 per cent and 19 per cent, respectively, reflected the direct government support given to those sectors. The increase in private firm plant and equipment investment, of 5.5 per cent, was considerably smaller. In the Federal Republic of Germany, fixed investment expanded vigorously in the second half of the year, perhaps as a result of improved domestic demand conditions. In the other major European economies, investment growth was very modest, and there was no solid evidence for anticipating a substantial upturn.

Private consumption provided a more important stimulus to growth in 1978 than did investment, although the stimulus was again modest and in line with the growth of real disposable income. This growth came about largely through the rise in pre-tax income that resulted from higher employment levels and higher real incomes. Discretionary tax changes were also in favour of the private consumer in all the major industrial countries except the United States where inflation pushed households into higher tax brackets. In the United Kingdom, favourable tax changes added almost 2 per cent to personal income, in line with the Government's policy to counteract the effects of inflation on disposable income through reductions in tax rates. Savings as a percentage of income rose in all these countries except Canada and slightly reduced the positive effects on consumption of changes in post-tax income.

Public consumption, which generally rose in line with GNP, provided a significant boost to demand only in Japan, where the Government's policy had been to stimulate government consumption and investment rather than private consumption. One of the distinctive features of the present recovery in all the other countries has been the reluctance of Governments to resort to public spending as a means of aiding recovery. The "tax revolt", most forcefully expressed in the United States, has weakened the ability of Governments to finance new expenditure from taxes, while fears of adding to inflationary pressures prevented Governments from increasing their budget deficits.

Exports provided considerable stimulus to demand in 1978 in all major industrial countries with the exception of Japan and the United Kingdom, but increases in imports in many cases more than counteracted the positive effects on GNP growth. Of the seven major industrial countries, only Canada and Italy showed positive changes in the foreign balances having a significant effect on the growth of GNP. In Japan and the Federal Republic of Germany, the external sector's contribution to growth in 1978 was negative, showing that the recent substantial revaluations of the yen and the mark were beginning to have an effect. Likewise, the depreciation of the United States and Canadian dollars may account in part for the positive impact of the foreign balance on growth in Canada and for the turn-around of the foreign balance in the United States, whose contribution to output growth may have turned positive for the first time since 1975.

Changes in stocks made little significant contribution to growth in any of the major industrial countries. The cautious attitude which helped to restrain investment was also reflected in the reluctance of businessmen to accumulate stocks in anticipation of any increase in demand.

Prospects for 1979 point to a substantial reduction in the already unsatisfactory pace of economic activity. While a sharp reduction in growth rates is expected in the United States in the second half of the year, in response to policies designed to control inflation and stabilize the dollar, present policies in the other major industrial countries are not likely to result in higher growth rates. Furthermore, the increases in oil prices of early 1979 will have a deflationary impact on the developed market economies which can only be combated through policies to stimulate aggregate demand.

The unemployment situation

With the onset of the recession of 1974-1975, unemployment rose steeply in all developed market economies and, mainly as a consequence of the sluggishness of the recovery, it continued to rise in the 1975-1978 period (see table III-4). Unemployment rates remained at very high levels during 1978, well above those prevailing at the beginning of the decade.

In the major industrial countries, unemployment rates remained high, and with the exception of the United States and the Federal Republic of Germany, they tended to edge upwards. By and large, the smaller countries recorded increases in unemployment.

Given the trends in aggregate demand, total employment rose at a surprisingly vigorous rate in North America (see table III-5). In Europe, however, employment appears to have declined somewhat, while in Japan it registered a small increase. Manufacturing employment fell or remained practically constant in all countries for which data are available, with the exception of the United States and Greece.

Looking at trends during the 1970s, it is evident that unemployment rates have increased sharply and are not coming down. It has been suggested that non-cyclical increases in participation rates are responsible for the generalized increase in unemployment. This assertion is true only to some extent. While in some countries (Canada, Italy the United Kingdom and the United States) participation rates, especially among women, have risen, in other countries (France and the Federal Republic of Germany) the trend in participation rates has been downwards. In addition, in these latter two countries, and perhaps in some of the smaller countries as well, unemployment rates have been kept down by the departure of foreign workers. Therefore, unemployment rates remain stubbornly high, with little prospect for any significant improvement in the near future, because the economic expansion remains weak.

The course of inflation

Except in Canada, France, the United States and some of the primary producing countries, in most developed market economies and for the group as a whole, inflation slackened somewhat during 1978 as compared to recent years. Despite a drop in the average rate of inflation and fairly substantial improvements in some countries, inflation still remains at high levels by historical standards, and it continues to be one of the major factors determining the conduct of economic policy. Outside the specific factors which may have been at work in 1978, the high rates of inflation recorded in most countries must be ascribed to the inflationary momentum that those economies have generated during the 1970s and which is very difficult to bring to a halt. Inflationary expectations interact with cost pressures to produce general increases in price levels which are slow in yielding to conventional policies of monetary and fiscal restraint.

As can be seen in the accompanying table (data for individual major industrial countries may be found in table III-6), the average rate of increase in consumer prices fell by a full percentage point in the major industrial countries and by over 1 1/2 percentage points in the smaller industrial countries.

Developed market economies: rates of change of consumer prices

(Percentage)

	1961-1970	1971-1978	1976	1977	1978	1978, first half a/	1978, second half a/
Developed market economies	3.4	8.4	8.5	9.0	8.0	7.7	8.6
Major industrial countries b/	3.2	7.9	7.8	8.1	7.1	6.9	8.1
Other industrial countries c/	3.9	8.0	8.4	7.7	6.0	5.8	4.5
Primary producing countries d/	4.0	13.7	14.9	18.7	17.8	16.7	17.3

Source: See table III-6.

a/ Relative to preceding half year, at annual rates.

b/ Canada, France, Germany, Federal Republic of, Italy, Japan, United Kingdom, United States.

c/ Austria, Belgium, Denmark, Finland, Luxembourg, Netherlands, Norway, Sweden, Switzerland.

d/ Australia, Greece, Ireland, New Zealand, Portugal, South Africa, Spain, Turkey.

The primary producing countries recorded only a small decline in their high inflation, although their average rate is influenced by the very high figure for Turkey. If Turkey is excluded, the average inflation rate for the primary producing countries works out at 13 3/4 per cent, substantially lower than in the previous year, although higher than for any of the other two groups.

Inflation trends diverged considerably as between countries. Among the major industrial countries, the rate of price advance rose in the United States and Canada, due to seasonal factors affecting food prices in the beginning of the year, sharp depreciations of exchange rates and wage increases which outstripped the slow growth of labour productivity. The two major industrial countries with the highest inflation rates - Italy and the United Kingdom - were successful in reducing their inflation rates towards the average for the group. The Federal Republic of Germany and Switzerland consolidated their price performance during 1978 and succeeded in lowering their inflation rates to negligible levels. Japan and a few of the smaller countries (Austria, Belgium, Luxembourg and the Netherlands) were able to reduce their rates of price increase to below 5 per cent per annum and appear to be on the way to joining the Federal Republic of Germany and Switzerland as relatively low-inflation countries. Although, as mentioned above, the highest rates of inflation were recorded in the group of primary producing countries, some of those countries (Australia, Ireland, Portugal and Greece in the second half of the year) made progress in lowering their rates of price increase.

Wholesale prices, which reflect more accurately the underlying inflation trends, also decelerated in 1978 (see table III-7). Particularly sharp declines were recorded in the small industrial countries, where wholesale prices advanced at very low rates during 1978. The slow-down in the recovery in 1977-1978 explains to some extent the generalized improvement in the inflation picture. However, cost increases continued to exert upward pressures on prices. Most of these cost pressures were domestic in origin, since soft raw material markets were responsible for a decline in the prices of primary commodities relative to those of manufactures. In particular, the constancy of crude petroleum prices during 1978 lessened inflationary pressures in most countries since, with the exception of Canada, Norway and the United Kingdom, the developed market economies are heavily dependent on imported petroleum.

Except for the United Kingdom and the United States, the trend towards somewhat lower rates of increase in wages observed since 1976 was extended into 1978, mainly due to the continued slack in labour markets (see table III-8). The wage deceleration was particularly pronounced in the smaller industrial countries.

Despite these more favourable wage trends, the task of controlling inflation was made more difficult by the behaviour of labour productivity in a number of countries. As can be seen from the estimates made in table III-9, the trend in the rates of change in labour productivity in the manufacturing sector and the economy as a whole in the period since the onset of the world recession has been downwards in all countries for which data are available. Other things being equal, smaller gains in productivity reduce the room for increases in wages compatible with a reduction in inflation and therefore may have contributed to the difficulties in bringing inflation down since 1973. Judging by the estimates presented in table III-9, in 1977-1978 unfavourable productivity developments may have added to inflationary pressures in Canada, France, Italy, the United Kingdom, the United States and in a number of the smaller countries (Australia, Austria and Sweden).

Exchange rate movements, especially in the short run before foreign prices have time to adjust, may have some additional exogenous impact on inflation differentials. Appreciation produces a decline - and depreciation, an increase - in import prices denominated in domestic currency. As discussed below, 1978 witnessed large shifts in effective exchange rates, with large depreciations in the United States and Canadian dollars and substantial appreciations in the currencies of the Federal Republic of Germany, Japan and Switzerland. These changes in exchange rates were larger than what would have been warranted by inflation differentials, and therefore, may have caused the latter to widen even further.

The decline in inflation rates experienced in 1978 is expected to be temporary. In fact, over-all inflation in the developed market economies was already accelerating in the second half of the year, mainly due to higher inflation rates in Canada, France, the United States and the United Kingdom. For 1979, price increases may be substantially higher. In the first quarter of 1979, the rise in consumer prices was already averaging around 10 per cent in the United States. Inflation will continue to be of the cost-push variety in most countries, since current growth forecasts indicate that demand pressures will not be an important factor contributing to inflation. While wage moderation could continue into 1979 in most countries, sharp wage increases are expected in the United Kingdom as a result of recent labour unrest and in the United States, where the rate of wage increase may be similar to the one registered in 1978, especially in view of the fact that a large number of union contracts are coming up for negotiation during 1979. An additional factor contributing to higher inflation will be the oil price increases of early 1979; by the second quarter of 1979, increases in the prices of crude petroleum for most exporting countries were some 24 to 31 per cent higher than at the end of 1978. For such reasons, it may prove to be a difficult task for the Governments of the developed market economies to keep inflation rates from rising during 1979.

The external sector

The recovery from the 1974-1975 recession has lost momentum in the past two years; this has been reflected in the movements of the external accounts of the developed market economies. As can be seen in the accompanying table, the trade and current account balances of these countries swung sharply into surplus in 1978. 1/ After two years of growing over-all deficits, the combined current account of the developed market economies improved by almost $30 billion in 1978. The major causes of the sharp over-all improvement in the external accounts of the developed market economies were the relatively slow rates of economic expansion in most countries, declining petroleum imports coupled with constant petroleum prices, and an improvement in the terms of trade, since the prices of manufactures rose considerably more than those for raw materials. Increases in petroleum production within the developed market economies, slowly rising consumption, large stocks at the beginning of the year and a reduction in official stockpiling in the United States kept imports from rising.

Despite substantial exchange rate fluctuation over the past two years, some external imbalances have tended to worsen and, besides, the general movement in current accounts has reinforced the deflationary forces at work within the developed market economies. In the major surplus countries - the Federal Republic of Germany, Japan and Switzerland - surpluses continued to rise in 1978, accentuating a trend that was established at the beginning of the world economic recovery. A number of major industrial countries - France, Italy and the United Kingdom - swung sharply into surplus in the 1976-1978 period, and the smaller developed market economies succeeded in considerably reducing their collective deficit. Finally, the deterioration in the current account of the United States, which had provided a major growth impulse in 1976 and 1977, was halted in 1978.

About one quarter of the improvement in the current account of the developed market economies was due to the increase in the surplus of the major surplus countries, which in 1978 was about 2 1/2 times the surplus of OPEC member countries and constituted a major deflationary force in the world economy. These growing surpluses were partly caused by the sharp appreciation in their exchange

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1/ Tables III-10 through III-13 provide data on the current accounts, trade volumes and terms of trade of individual major industrial countries and other country groups.

Developed market economies: balances on trade, services, and current account, a/ by country grouping, 1975-1978
(Billions of dollars)

	Major surplus countries b/	Other major industrial countries except the United States c/	United States	Smaller developed market economies d/	Total, developed market economies
Trade balance					
1975	22.8	-6.6	9.1	-18.8	6.5
1976	27.0	-13.1	-9.4	-21.8	-17.2
1977	36.9	-2.0	-31.1	-23.3	-19.6
1978 e/	48.6	4.8	-34.1	-14.1	5.1
Balance on services and private transfers					
1975	-12.9	0.6	13.4	4.3	5.4
1976	-11.8	2.3	18.1	2.2	10.8
1977	-13.7	3.0	20.0	0.8	10.0
1978 e/	-17.1	8.1	22.9	0.6	14.5
Current account balance					
1975	9.9	-6.0	22.4	-14.5	11.8
1976	15.3	-10.8	8.7	-19.6	-6.5
1977	23.2	1.0	-11.1	-22.6	-9.5
1978 e/	31.5	12.9	-11.3	-13.5	19.6

Source: See table III-10.

a/ Excluding government transfers.

b/ Germany, Federal Republic of, Japan, Switzerland.

c/ Canada, France, Italy, United Kingdom.

d/ Austria, Australia, Belgium, Denmark, Finland, Greece, Iceland, Ireland, Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Turkey.

e/ Estimate based on partial data.

rates, which even in the absence of terms-of-trade effects would have inflated trade values expressed in United States dollars. Besides, a large share of the increase in the surpluses came as a result of improvements in their terms of trade. On the one hand, changes in the prices of internationally traded commodities were favourable to this group of countries, since all three countries are net importers of raw materials and net exporters of manufactures. On the other hand, the terms of trade were affected by currency appreciation. As is well known, for large countries which influence the prices of the commodities they trade, movements in the terms of trade and in the exchange rate tend to be positively correlated, especially in the short run, before foreign prices have time to adjust to the new supply/demand conditions brought about by exchange rate changes. For example, since Japanese imports tend to be denominated in foreign currencies while Japanese exports tend to be denominated in yen, in the short run - other things being equal - appreciation of the yen will tend to reduce import prices more than export prices expressed in yen (or, conversely, to raise export prices more than import prices denominated in foreign currencies). Thus, despite a reduction in the rates of growth of export volume (in Japan, exports fell in real terms) and an increase in the growth of imports, improvements in the terms of trade caused the trade and current account surpluses of these countries to increase sharply.

In the United States, both the trade and current account deficits peaked in the first half of the year, and significant reductions appear to have taken place in the second half. For the year as a whole, however, the trade balance worsened. The terms of trade appear to have improved slightly. While changes in international prices were favourable to the United States, the sharp depreciation of the dollar prevented the terms of trade from rising there as much as they did in the major surplus countries. On the other hand, the real trade balance tended to improve as the year progressed. In response to the depreciation of the dollar, the growth of export volume, particularly of manufactures, rose sharply after the first quarter of the year, and there was a tendency for the growth of real imports to slow down as a result of higher relative dollar-prices for imports. Higher investment income from abroad, resulting largely from the devaluation of the dollar, helped to counteract the rise in the trade deficit and kept the current account deficit from rising any further.

Price and volume trends were rather mixed in the remaining major industrial countries. Owing to the increase in the prices of manufactures relative to primary commodities, the terms of trade appear to have improved substantially in France, Italy and the United Kingdom during 1978. In the first two countries, growth in real imports was held down by relatively stringent economic policies, and the growth of export volume tended to outstrip that of import volume. As a result of the more favourable terms of trade and an improving real trade balance, their trade surpluses rose sharply. In the United Kingdom, on the other hand, responding to the revival in domestic demand, import volume rose more rapidly than export volume, and this was the main factor causing the trade deficit to widen somewhat. Canada experienced a worsening of its terms of trade, due to the sharp depreciation of the Canadian dollar and the fact that Canada is a net exporter of primary commodities and a net importer of manufactures. Nevertheless, the trade surplus rose as a result of improvements in the trade balance in real terms brought about by exchange rate depreciation and by Canada's cyclical position vis-à-vis its major trading partners.

The smaller developed market economies were able to reduce their deficits quite substantially during the year. At the beginning of 1978 the cumulative current account deficit of these countries since 1974 was over $70 billion. Restrictive economic policies maintained for several years appear to be yielding some reduction in the degree of internal and external imbalances. Most of the improvement in the current account deficits was due largely to sluggish growth in real imports.

Exchange rates continued to fluctuate widely in 1978, with an accentuation of the trends that were already observable in 1977 (see table III-14). Thus the United States and Canadian dollars fell substantially in effective terms, 2/ and the yen, Swiss franc and Deutsche Mark appreciated sharply. The currencies of the other major industrial countries and of the smaller industrial countries (except for the Austrian, Belgian and Netherlands currencies, which appreciated together with the Deutsche Mark) remained relatively unchanged in effective terms. These movements in exchange rates were broadly in line with the pattern of current accounts. In the three largest economies, current account imbalances were so large that they could not be compensated for by autonomous capital flows. Thus a large current account deficit in the United States was not compensated by an inflow of capital, and the counterpart of the large outflows on both current and capital account was a very substantial increase in United States liabilities to foreign official institutions. Likewise, capital outflows from the Federal Republic of Germany and Japan were substantially lower than their growing current account surpluses, and official reserves increased sharply.

In addition, exchange rate movements tended to reflect differences in expected rates of inflation. The widening inflation differential between the United States and its major trading partners gave rise to broadly held expectations that the United States dollar would continue to depreciate, and these expectations in turn were partially responsible for the large drop in the dollar in the first 10 months of the year, a period during which the dollar fell by about 10 per cent in effective terms.

These trends were reversed to some extent in the final two months of the year after the authorities of the United States announced a massive programme of defence of the dollar in early November. The main elements of the programme were the mobilization of $30 billion in resources for joint intervention in foreign exchange markets with the Federal Republic of Germany, Japan and Switzerland, and the tightening of domestic monetary policy by raising the discount rate from 8 1/2 to 9 1/2 per cent and by imposing a 2 per cent supplementary reserve requirement on large time deposits. The $30 billion intervention package included drawings on IMF, sales of SDR to the Federal Republic of Germany, Japan and Switzerland, a doubling of Federal Reserve swap lines with those same countries, and a commitment by the United States Treasury to issue up to $10 billion in securities denominated in foreign currencies in foreign capital markets.

2/ The effective exchange rate, as calculated in table III-14, is an index combining the exchange rate of the country in question and those of 20 other major currencies with weights derived from the International Monetary Fund's multiple exchange rate model (MERM). These weights take into account the size of trade flows as well as the relevant price elasticities and feedback effects of exchange rate changes on domestic costs and prices.

The general trends in the external accounts of the developed market economies reveal that significant inadequacies exist in the balance-of-payments adjustment process. In the first place, the wide divergences in economic growth and in rates of price increase among countries have produced sizable changes in exchange rates. Exchange rate movements, in turn, have tended to reinforce the pattern of price changes, while at the same time contributing to a sense of uncertainty that has inhibited investment. While some of the exchange rate movements since mid 1977 have been excessive, for the most part they reflect the divergent experiences mentioned above and, in particular, divergent national views regarding the appropriate trade-off between inflation and growth. As the experience of the past two years shows, despite substantial depreciation in the currencies of deficit countries and appreciation in the currencies of surplus countries, major imbalances have tended to worsen rather than improve. As can be seen in table III-15, which shows rates of change in export unit value multiplied by effective exchange rates, exchange rate movements have tended to be in the "right" direction, in the sense of improving the competitiveness of deficit countries vis-à-vis surplus countries. However, the favourable volume changes that can be expected from these changes in competitiveness are slow in taking hold and tend to be swamped in the short term by perverse terms-of-trade effects.

Secondly, the events of the past two years confirm the pronounced deflationary bias of the adjustment process. While some policy correction did take place in the surplus countries, it was insufficient to produce a decline in their surpluses and reserve accumulation. In addition, low import elasticities of demand in Japan, due in part to specific policies, dampened the impact of more expansionary demand management policies on the trade balance. On the other hand, deficit countries were forced to continue to apply stringent economic policies. More significantly, the United States, which as the major reserve currency country had conducted its economic policy with little regard for its balance-of-payments position, was forced into strong deflationary measures by the sharp decline of the dollar and the acceleration of domestic price inflation.

Mainly as a result of a slower pace of expansion in the United States, some improvement may be expected in the pattern of current accounts during 1979. However, in the absence of sufficiently strong reflationary policies in the major surplus countries, and perhaps also in the other major European countries which at present enjoy large current account surpluses, progress in this regard may be slow and could result in a substantial slow-down in economic growth in the area as a whole. Moreover, the oil price increases of early 1979 may reduce the speed with which the current account deficit of the United States winds down.

Economic policies

Since the onset of the recession, Governments have been hindered from pursuing expansionary economic policies by high inflation rates and, in a number of countries, by large current account deficits. To some extent, these constraints have been relaxed in the past two years. France, Italy, the United Kingdom and most of the smaller industrial countries have experienced substantial improvements in their current accounts. On the other hand, while inflation has continued to be a priority concern of Governments, inflation rates outside North America, and particularly in Europe, did decline somewhat in 1978. The Federal Republic of Germany, Japan and Switzerland were in a particularly favourable position to stimulate their economies, since their current accounts were in strong surplus, they had accumulated large foreign currency reserves and their inflation rates had been reduced to very low levels. On the other hand, growing inflation, a worsening current account deficit and sharp currency depreciation dictated increasingly restrictive policies in the United States.

To some extent, the need for such policy shifts came to be increasingly recognized. However, available evidence indicates that contractionary policies in the United States are likely to be stronger than expansionary measures in other countries.

In July, the Heads of State or Government of the seven major industrial countries, meeting at Bonn, agreed to a set of differentiated measures aimed at raising over-all growth while controlling inflation and currency instability. 3/ While the Federal Republic of Germany and Japan - as well as Canada, France and Italy, to a less extent - committed themselves to implementing more stimulatory fiscal policies, the United States affirmed its intention to make the reduction of inflation its top priority by reducing the tax cuts proposed for fiscal year 1979, by cutting projected government expenditures in 1978 and 1979, and by implementing a voluntary wages and prices policy.

The German measures, announced in July 1978 and finally approved in November, were made up mainly of cuts in personal income taxes and improvements in child allowances and welfare benefits. On the other hand, the Japanese measures, enacted in September, were designed to raise the rate of growth by 1.3 per cent to 7 per cent in 1978/79 through public works projects and house-building. In late December, though, the Government revised downwards the expected growth rate to 6 per cent, while estimating growth in fiscal 1979 at 6.3 per cent. It is expected that the impact of the German and Japanese measures on the annual rates of growth of real GNP will be concentrated in the first half of 1979, and that they will not be extended in the near future. 4/

Fiscal policies in the other major industrial countries have been less expansionary. In France, after a doubling of the general Government's deficit in 1978, a sharp reduction is envisaged for 1979. Although some stimulus in the form of tax cuts was provided for in the United Kingdom's budget for the financial year beginning in April 1978, the desire of the authorities to keep the Public Sector Borrowing Requirement within specified limits continued to dominate fiscal policy. Likewise, in Italy and Canada current fiscal plans call for a reduction in the ratio of the fiscal deficit to GNP in 1979.

As can be judged from the different projections made for the federal budget for fiscal year 1979, beginning on 1 October 1978, the fiscal policy of the United States became increasingly conservative in the face of growing inflationary pressures. In proposals made in January 1978, the federal deficit was projected at $60.5 billion, whereas revisions made up to the end of October increased receipts by, inter alia, scaling down the size of the tax cut proposed at the beginning of the year from $25 billion to $18.7 billion, reduced outlays and,

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3/ See IMF Survey, 31 July 1978.

4/ Organisation for Economic Co-operation and Development, Economic Outlook, No. 24 (December 1978), pp. 17-19.

therefore, cut the deficit to $38.9 billion. The federal deficit for fiscal 1980 was set at $29 billion.

During 1978, with the exception of the United Kingdom, in most European countries and Japan, credit conditions remained slack, and interest rates either fell or remained at extremely low levels. In the United Kingdom, as wage settlements tended to exceed the voluntary limits agreed on between the Government and the trade unions, the authorities increased their reliance on monetary and fiscal restraint as means to control inflation, and interest rates rose sharply. In the Federal Republic of Germany and Switzerland, intervention in currency markets to slow down the appreciation of their currencies forced the authorities to expand the money aggregates beyond the limits they had set.

The weakness of both the Canadian and United States dollars led those countries' monetary authorities to adopt increasingly restrictive monetary policies in the course of 1978, and interest rates rose sharply in both countries. In the United States, strength in the demand for credit caused the rate of growth of the money supply to exceed the Federal Reserve targets in the first three quarters of the year. After the November measures to tighten credit and support the dollar, however, monetary aggregates came under control.

Some countries sought to improve the trade-off between inflation and growth by recourse to incomes policies. The British Government had in 1978 followed a policy of trying to obtain adherence to its voluntary incomes policy by means of granting tax reductions. However, growing labour unrest after several years of wage restraint is undermining the success of these policies. Particularly innovative approaches were pursued in the United States. At the end of October the Administration unveiled a programme of voluntary price and wage guidelines. Wages were to rise by only 7 per cent in 1979, the Administration promising to submit to Congress a programme of "real wage insurance" whereby groups of workers that complied with the wage standards would receive tax rebates should the inflation rate exceed 7 per cent. As part of the prices policy designed to lower the rate of inflation to 6-6 1/2 per cent in 1979, individual firms were asked to limit their price increases over the next year to one half a percentage point below the firm's average annual rate of price increase during 1976-1977. This rule is relaxed somewhat for firms showing large and unavoidable cost increases. Compliance with the guidelines will be encouraged by relating federal procurement actions to the standards. As of this writing, the programme had not gained wide acceptance with labour and management, and its effects in reducing inflation are uncertain.

The experience of the past few years clearly reveals that new policy approaches are required if the developed market economies are to break out of the dilemma between improving growth performance and reducing their high rates of inflation. Conventional fiscal and monetary policies are insufficient to improve this worsening trade-off. While the incomes policies that have been pursued did not so far provide the answer to the problems of "stagflation", this does not imply that incomes policies in general must be deemed a failure. Regardless of its eventual success or failure, the attempt of the authorities of the United States to use a version of the recently proposed taxed-based incomes policies 5/ is a promising departure.

5/ For a full discussion of these policies, see Brookings Institution, Brookings Papers on Economic Activity, No. 2 (Washington, D.C., 1978).

Table III-1. Major industrial countries: rates of growth in gross national product, a/ in constant prices, 1961-1978

(Percentage)

	1961-1970	1971-1978 b/	1976-1978 b/	1976	1977	1978 b/
Major industrial countries	4.9	3.5	4.5	5.7	3.9	3.8
Canada	5.2	4.6	3.9	5.5	2.7	3.4
France	5.8	3.7	3.6	5.6	2.4	2.9
Germany, Federal Republic of	4.7	2.7	3.9	5.7	2.6	3.4
Italy	5.5	2.7	3.2	5.7	1.7	2.0
Japan	11.1	5.4	5.9	6.5	5.4	5.6
United Kingdom	2.8	2.1	2.7	3.6	1.3	3.1
United States of America	3.9	3.2	4.8	5.7	4.9	4.0

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues; Commission of the European Communities, European Economy, No. 2 (March 1979); Economic Commission for Europe, Economic Survey of Europe, 1978 (to be issued as a United Nations publication); and official national sources.

a/ Gross domestic product for France, Italy and the United Kingdom.

b/ Estimate based on partial data.

Table III-2. Developed market economies: rates of change in industrial production, a/ 1961-1978

(Percentage)

	1961-1970	1971-1978	1976-1978	1976	1977	1978	1978, first half b/
Developed market economies	6.0	3.2	4.1	8.2	4.0	4.2	2.9
Major industrial countries	6.0	3.2	4.3	8.9	4.1	4.6	3.2
Canada	6.2	4.2	4.6	5.1	4.0	5.3	3.5
France	4.9	3.1	1.9	7.0	1.9	1.8	0.5
Germany, Federal Republic of	5.2	2.0	2.6	7.3	2.9	2.3	1.0
Italy	7.2	3.1	2.2	12.4	1.1	3.3 c/	-2.7
Japan	13.8	3.6	5.1	11.1	4.1	6.2	5.0
United Kingdom	2.9	1.2	3.7	2.0	3.8	3.7	3.2
United States of America	5.0	3.8	5.7	10.2	5.6	5.8	4.8
Other industrial countries d/	5.7	2.1	0.8	3.7	1.0	0.5 c/	-0.4
Primary producing countries e/	7.9	5.2	5.9	5.4	7.3	5.7 c/	4.1

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues; Organisation for Economic Co-operation and Development, Main Economic Indicators and Industrial Production, various issues; and National Institute for Economic and Social Research, National Institute Economic Review (London, February 1979).

a/ Manufacturing production for Denmark.

b/ Relative to first half of 1977.

c/ Estimate based on partial data.

d/ Austria, Belgium, Denmark, Finland, Luxembourg, Netherlands, Norway, Sweden, Switzerland.

e/ Australia, Greece, Ireland, Portugal, South Africa, Spain.

Table III-3. Major industrial countries: changes in major components of final demand, a/ in constant prices, 1976-1978

(Percentage change over preceding period, at annual rates, seasonally adjusted)

	1976	1977	1978 b/	1977, second half	1978, first half	1978, second half b/
Canada						
Private consumption	6.4	2.8	3.1	1.6	4.0	2.5
Government consumption	1.9	2.0	1.5	-2.0	5.3	-1.3
Gross fixed investment	2.2	0.3	-0.2	-1.5	-0.9	4.1
Increase in stocks c/	1.1	-0.8	0.5	0.3	-0.4	2.0
Exports of goods and services	9.4	7.4	8.5	0.8	14.7	7.0
Imports of goods and services	8.0	2.5	4.1	4.2	5.6	11.4
Foreign balance d/	-0.1	1.1	0.9	1.3	1.8	-1.3
GNP at market prices	5.5	2.7	3.4	2.5	3.9	3.2
France e/						
Private consumption	5.2	2.5	3.6	3.7	4.0	...
Government consumption	4.6	3.8	4.0	4.5	4.5	...
Gross fixed investment	3.9	-0.6	1.5	-1.2	1.5	...
Increase in stocks c/	1.5	0.1	-0.1	-0.1	0.2	...
Exports of goods and services	9.2	6.3	6.4	8.3	7.4	...
Imports of goods and services	19.2	1.0	5.9	-1.6	9.7	...
Foreign balance d/	-1.7	1.0	0.2	0.8	-	...
GNP at market prices	4.6	3.0	3.3	0.5	4.3	...
Germany, Federal Republic of						
Private consumption	3.6	3.1	3.8	5.4	2.8	4.8
Government consumption	2.4	1.0	3.1	2.1	2.8	4.2
Gross fixed investment	5.0	4.1	6.2	4.0	4.4	13.9
Increase in stocks c/	1.6	-0.3	-0.2	-1.1	-0.4	1.4
Exports of goods and services	11.1	3.9	4.3	3.1	4.3	6.8
Imports of goods and services	10.6	4.3	6.8	7.6	4.8	11.5
Foreign balance	0.4	-	-0.5	-0.9	-	-1.0
GNP at market prices	5.7	2.6	3.4	2.6	2.5	6.9
Italy						
Private consumption	3.4	2.1	2.0	-	2.5	...
Government consumption	1.8	2.3	2.4	2.9	2.2	...
Gross fixed investment	1.9	0.1	-2.0	-10.3	0.7	...
Increase in stocks c/	2.8	-1.6	0.4	-4.4	1.1	...
Exports of goods and services	11.2	6.4	7.1	3.4	5.4	...
Imports of goods and services	14.9	-2.4	2.6	-8.1	-1.1	...
Foreign balance d/	0.2	1.6	1.1	2.3	1.0	...
GDP at market prices	5.7	1.7	2.5	-3.6	4.2	...

Table III-3. (continued)

	1976	1977	1978 b/	1977, second half	1978, first half	1978, second half b/
Japan						
Private consumption	4.4	4.3	4.9	2.7	5.2	6.3
Government consumption	3.7	4.0	5.9	4.9	7.4	4.1
Gross fixed investment	3.1	3.6	10.9	6.3	11.9	13.6
Increase in stocks c/	0.5	0.2	-0.1	-0.3	-0.1	0.4
Exports of goods and services	20.0	11.5	0.8	0.2	7.1	-11.4
Imports of goods and services	8.0	3.5	8.3	-2.3	9.2	17.5
Foreign balance d/	2.2	1.5	-0.8	0.6	0.3	-4.1
GNP at market prices	6.4	5.4	5.6	4.0	7.2	4.2
United Kingdom						
Private consumption	0.2	-1.0	5.8	3.3	6.8	5.8
Government consumption	2.1	-0.4	1.5	1.6	1.9	0.5
Gross fixed investment	-1.6	-3.7	2.5	2.0	3.4	1.0
Increase in stocks c/	2.1	0.7	0.5	-2.0	2.3	-1.0
Exports of goods and services	9.1	6.7	2.3	8.0	-3.1	8.0
Imports of goods and services	4.0	0.3	6.3	-7.2	13.7	6.0
Foreign balance d/	1.3	1.8	-1.0	4.4	-4.6	0.5
GDP at market prices	3.6	1.2	3.3	5.0	2.7	3.3
United States of America						
Private consumption	5.8	4.7	4.0	4.6	2.9	5.5
Government consumption	-	2.4	2.2	5.9	-0.8	4.5
Gross fixed investment	9.5	12.4	6.6	8.3	6.1	5.9
Increase in stocks c/	1.4	0.2	0.1	0.3	0.4	-0.7
Exports of goods and services	6.6	2.4	9.0	0.8	11.2	13.1
Imports of goods and services	19.3	10.2	11.2	8.6	13.9	8.5
Foreign balance d/	-0.6	-0.5	-0.1	-0.5	-0.1	0.4
GNP at market prices	5.7	4.9	4.0	5.1	2.9	5.0

(Source and foot-notes on following page)

(Source and foot-notes for table III-3)

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Quarterly National Accounts Bulletin; National Accounts for OECD Countries 1978; Economic Outlook, No. 24 (December 1978); Economic Survey of the United Kingdom (March 1979); and estimates of the Commission of the European Economic Community and national sources.

a/ Owing to differences in sources, data presented in this table may differ from those shown for similar items in other tables of the present report.

b/ Preliminary estimate.

c/ Change in stock-building as percentage of GNP/GDP in the preceding period.

d/ Change in foreign balance as percentage of GNP/GDP in the preceding period.

e/ Volume terms in prices of preceding year.

Table III-4. Developed market economies: unemployment rates, 1971-1978

(Percentage of labour force)

	1971	1975	1976	1977	1978
Major industrial countries					
Canada	6.4	6.9	7.2	8.1	8.4
France	2.7	4.0	4.2	4.8	5.1 a/
Germany, Federal Republic of	0.8	4.7	4.6	4.5	4.4
Italy	3.2	3.3	3.7	7.2 b/	7.2
Japan	1.2	1.9	2.0	2.0	2.3 a/
United Kingdom	3.5	4.1	5.8	6.2	6.2
United States of America	5.9	8.5	7.7	7.0	6.0
Other industrial countries					
Austria	2.1	2.0	2.0	1.8	2.1
Belgium	2.9	6.7	8.6	9.9	10.5
Denmark	1.1 c/	6.0	6.1	7.7 b/	8.8
Finland	2.3	2.2	4.0 b/	6.1	7.5
Netherlands	1.6	5.2	5.5	5.3	5.2
Norway	0.8	1.3	1.3	1.1	1.3
Sweden	2.5	1.6	1.6	1.8	2.2
Primary producing countries					
Australia	1.6	4.4	4.6	5.6	6.3
Ireland	7.2	12.2	12.3	11.8	10.7 a/

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, *Monthly Bulletin of Statistics*, various issues; Organisation for Economic Co-operation and Development, *Labour Force Statistics, 1965-1976* (Paris, 1978); and *Economic Outlook*, No. 24 (December 1978).

a/ Estimate based on partial data.

b/ Scope of series revised.

c/ 1973.

Table III-5. Developed market economies: rates of change in employment, 1971-1978

(Percentage)

	Total employment			Manufacturing employment		
	1971-1977	1977	1978 a/	1971-1977	1977	1978 a/
Major industrial countries						
Canada	3.1	2.0	3.5	0.6	-1.4	1.2
France	-	-	-1.3	-0.3	-1.2	-2.3
Germany, Federal Republic of	-1.1	-	-	-1.7	-0.6	0.3
Italy	1.3	5.0	0.6	1.7	5.0	-2.0
Japan	0.7	1.0	1.0	-0.4	-0.6	-1.3
United Kingdom	0.3	1.0	-	-1.5	1.5	-0.4
United States of America	2.2	3.9	4.4	0.9	3.2	3.8
Other industrial countries						
Austria	...	...	...	-0.4	0.8	-1.7
Denmark	...	...	...	-1.5	-1.3	-1.6
Finland	-0.1	-2.1	-1.7	0.9	-0.7	-2.9
Netherlands	...	...	...	-2.7	-2.3	-3.0
Norway	...	...	...	1.0 b/	-1.2	-3.7
Sweden	0.9	-	0.3	0.7	-3.3	-4.6
Switzerland	-2.1	-	1.0	-3.5	-0.3	0.1
Primary producing countries						
Australia	1.8	1.9	-0.3	-1.9	-3.2	-2.3
Greece	...	...	...	3.7	4.6	2.8
Ireland	...	...	...	0.1	3.1	...
New Zealand	1.7	1.0	-1.0			
South Africa	...	...	...	1.9	-2.4	-1.5
Spain	-	-1.0	-1.8	2.7 c/	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, various issues; Organisation for Economic Co-operation and Development, Main Economic Indicators, various issues; and Labour Force Statistics, 1965-1976 (Paris, 1978).

a/ Estimate based on partial data.

b/ 1972-1977.

c/ 1971-1976.

Table III-6. Major industrial countries: rates of change in consumer prices, 1961-1978

(Percentage)

	1961-1970	1971-1978	1976	1977	1978	1978, first half a/	1978, second half a/
Major industrial countries	3.2	7.9	7.8	8.1	7.1	6.9	8.1
Canada	2.7	7.6	7.5	8.0	9.0	8.6	9.3
France	4.0	9.0	9.2	9.5	9.2	8.1	10.6
Germany, Federal Republic of	2.6	5.2	4.5	3.9	2.6	3.7	0.9
Italy	3.9	12.8	16.8	17.0	12.2	12.2	11.4
Japan	5.7	9.8	9.3	8.1	3.8	3.7	3.7
United Kingdom	3.9	13.2	16.5	15.9	8.3	7.9	8.1
United States of America	2.7	6.7	5.8	6.5	7.5	7.3	9.6

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues.

a/ Relative to the preceding half year, at annual rates.

Table III-7. Developed market economies: rates of change in wholesale prices, 1961-1978

(Percentage)

	1961-1970	1971-1978	1976	1977	1978
Developed market economies	1.9	8.6	7.3	7.5	6.2
Major industrial countries	1.8	8.3	6.7	6.8	5.5
Canada	2.2	9.9	4.2	9.2	9.1
France	2.8	7.4	7.4	5.6	4.3
Germany, Federal Republic of	1.3	4.9	3.9	2.6	1.3
Italy	2.6	14.8	22.9	17.4	8.4
Japan	1.3	6.3	5.1	1.8	-2.5
United Kingdom	3.1	14.2	17.3	19.8	9.1
United States of America	1.5	8.3	4.6	6.1	7.8
Other industrial countries	2.3	6.7	6.7	5.4	2.2
Primary producing countries	3.2	13.2	14.7	16.1	16.9 a/

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues.

a/ Estimate based on partial data.

Table III-8. Developed market economies: rates of increase in hourly earnings in manufacturing, a/ 1971-1978

(Percentage)

	1971-1978	1976	1977	1978
Developed market economies	11.2	11.4	10.9	9.9
Major industrial countries	10.7	10.9	10.5	9.6
Canada	10.8	13.8	10.8	7.2
France	15.2	16.5	14.2	14.2
Germany, Federal Republic of	8.4	6.4	7.0	5.4
Italy	19.4	20.9	27.3	16.8 b/
Japan	15.1	12.7	9.9	7.8
United Kingdom	15.2	16.0	9.5	15.0
United States of America	7.9	8.1	8.6	8.6
Other industrial countries c/	11.5	11.2	7.6	7.2 b/
Primary producing countries d/	18.4	18.4	22.3	17.0 b/

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues; and Organisation for Economic Co-operation and Development, Main Economic Indicators, various issues.

a/ Monthly earnings for Austria, Japan, Portugal and United Kingdom; weekly earnings for Australia, Ireland and New Zealand.

b/ Estimate based on partial data.

c/ Austria, Belgium, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland.

d/ Australia, Greece, Iceland, Ireland, New Zealand, Portugal, Spain.

Table III-9. Developed market economies: rates of change in labour productivity, 1960-1978

(Percentage)

	Economy-wide a/				Manufacturing sector			
	1961-1973	1974-1978 b/	1977	1978 b/	1961-1973	1974-1978 b/	1977	1978 b/
Major industrial countries								
Canada	2.6	0.4	0.7	-0.1	4.2	3.1	4.6	5.8
France	4.7	3.4	2.4	4.3	5.4	2.4	2.1	3.0
Germany, Federal Republic of	4.4	3.3	2.6	3.4	4.4	2.6	3.3	1.4
Italy	5.8	0.0	-3.1	1.4	4.8	0.5	-4.0	5.0
Japan	8.9	3.1	4.4	4.6	9.3	2.4	4.7	7.1
United Kingdom	2.9	1.2	0.2	3.1	3.5	0.4	0.4	1.1
United States of America	2.2	-0.1	1.0	-0.5	4.0	2.4	3.3	2.5
Other industrial countries								
Austria	...	...	...	...	5.1	3.2	2.3	2.9
Denmark	...	...	...	...	4.4	3.8	3.1	3.4
Finland	4.9	1.7	2.6	4.3	5.1	1.6	0.7	7.1
Netherlands	...	...	...	...	6.3	4.1	3.2	6.4
Norway	...	...	...	...	3.5	-1.7	1.3	3.7
Sweden	3.4	0.1	-2.5	2.2	5.4	0.1	0.6	3.2
Switzerland	3.0	2.4	2.6	0.2	4.6	...	4.4	...

Table III-9. (continued)

	Economy-wide a/				Manufacturing sector			
	1961-1973	1974-1978 b/	1977	1978 b/	1961-1973	1974-1978 b/	1977	1978 b/
Primary producing countries								
Australia	2.4	1.2	0.5	4.4	3.3	1.4	0.6	2.1
Greece	...	...	...	...	6.8	1.3	-2.7	4.9
New Zealand	1.9	0.7	2.5	1.5	...	...	...	...
South Africa	...	...	...	...	2.5	1.1	-3.4	9.2
Spain	6.5	3.4	3.6	4.3	...	...	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, various issues; Organisation for Economic Co-operation and Development, Main Economic Indicators, various issues; Labour Force Statistics, 1965-1976 (Paris, 1978); Economic Outlook, No. 24 (December 1978); International Monetary Fund, International Financial Statistics, various issues; and National Institute of Economic and Social Research, National Institute Economic Review (London, February 1979).

a/ Rate of change of GNP/GDP divided by total employment.

b/ Estimate.

Table III-10. Developed market economies: balances on trade, services and private transfers, and current account, 1976-1978

(Billions of dollars)

	Trade balance a/			Balance on services and private transfers			Current account balance b/		
	1976	1977	1978 c/	1976	1977	1978 c/	1976	1977	1978 c/
Developed market economies	-17.18	-19.57	5.13	10.75	10.03	14.46	-6.45	-9.54	19.60
Major surplus countries	27.02	36.86	48.57	-11.75	-13.71	-17.10	15.26	23.15	31.48
Germany, Federal Republic of	16.69	19.40	23.10	-8.99	-11.35	-13.24	7.69	8.05	9.86
Japan	9.89	17.31	24.72	-5.99	-6.21	-7.86	3.90	11.11	16.87
Switzerland	0.44	0.15	0.75	3.23	3.85	4.00	3.67	3.99	4.75
United States of America	-9.35	-31.13	-34.14	18.08	20.00	22.88	8.73	-11.12	-11.26
Other major industrial countries	-13.08	-1.98	4.80	2.25	2.99	8.10	-10.84	1.00	12.90
Canada	1.66	3.04	3.44	-5.46	-6.87	-6.88	-3.80	-3.83	-3.44
France	-4.68	-2.73	1.58	-0.18	0.85	3.52	-4.87	-1.88	5.10
Italy	-4.24	0.14	2.54	2.65	3.86	6.41	-1.59	4.00	8.95
United Kingdom	-5.82	-2.43	-2.76	5.24	5.15	5.05	-0.58	2.71	2.29
Other developed countries d/	-21.77	-23.32	-14.10	2.17	0.75	0.58	-19.60	-22.57	-13.52

(Source and foot-notes on following page)

(Source and foot-notes for table III-10)

Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues; Organisation for Economic Co-operation and Development, Economic Outlook, No. 24 (December 1978); and data of the United States Department of Commerce.

a/ Exports, f.o.b. minus imports, f.o.b.

b/ Balance on goods, services and private transfers.

c/ Preliminary estimates based on data for the first three quarters of the year, except for Australia, Denmark, Japan and United States of America.

d/ Austria, Australia, Belgium, Denmark, Finland, Greece, Iceland, Ireland, Netherlands, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Turkey.

Table III-11. Developed market economies: rates of change in export volume, 1971-1978

(Percentage)

	1971-1977	1976	1977	1978
Developed market economies	6.8	11.0	5.1	...
Major industrial countries	7.1	10.7	5.7	5.3
Canada	4.7	11.1	9.5	9.6
France	7.6	9.1	6.6	6.0
Germany, Federal Republic of	6.9	13.6	4.9	5.0
Italy	7.3	12.1	7.9	4.6 a/
Japan	11.5	22.0	8.9	-1.2
United Kingdom	6.3	8.7	9.5	4.5
United States of America	5.7	3.4	0.2	8.3
Other industrial countries b/	5.8	11.8	2.8	4.7 a/
Primary producing countries c/	6.9	11.7	6.4	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*, various issues.

a/ Estimate based on partial data.

b/ Austria, Belgium, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland.

c/ Australia, Greece, Ireland, New Zealand, South Africa, Spain, Turkey.

Table III-12. Developed market economies: rates of change in import volume, 1971-1978

(Percentage)

	1971-1977	1976	1977	1978
Developed market economies	5.4	13.7	3.4	...
Major industrial countries	5.7	15.4	4.0	7.0
Canada	7.6	7.4	0.5	4.3
France	7.4	20.8	0.8	5.2
Germany, Federal Republic of	6.9	16.5	4.5	8.1
Italy	2.5	17.6	-2.8	0.7 a/
Japan	4.6	8.4	2.5	6.5
United Kingdom	4.4	6.4	2.3	7.6
United States of America	6.1	21.9	10.3	9.7
Other industrial countries b/	4.7	11.6	3.6	-0.6 a/
Primary producing countries c/	4.5	6.0	-2.6	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues.

a/ Estimate based on partial data.

b/ Austria, Belgium, Denmark, Finland, Netherlands, Norway, Sweden, Switzerland.

c/ Australia, Greece, Ireland, New Zealand, South Africa, Spain, Turkey.

Table III-13. Developed market economies: rates of change in the terms of trade, 1976-1978

(Percentage)

	1976	1977	1978 a/
Major industrial countries			
Canada	1.9	-4.8	-3.2
France	-1.3	-1.6	4.1
Germany, Federal Republic of	-1.4	-	3.3
Italy	-3.8	2.5	2.1
Japan	-4.0	2.7	16.9
United Kingdom	-1.3	2.3	5.7
United States of America	0.4	-4.1	1.6
Other industrial countries			
Austria	-2.0	-0.7	0.3
Belgium	-2.0	-1.6	0.5
Denmark	-	-2.7	3.6
Finland	-3.9	0.4	-3.7
Netherlands	-	-	0.8
Norway	-3.9	-1.4	3.0
Sweden	-	-5.3	-3.9
Switzerland	4.1	-2.1	6.5
Primary producing countries			
Australia	-3.4	-8.9	-2.3
Cyprus	4.4	-0.6	-6.0
Greece	-0.1	3.2	-3.4
Iceland	12.6	8.4	...
Ireland	3.8	0.3	-0.3
Malta	2.7	-4.7	...
New Zealand	7.5	3.6	...
South Africa	-3.8	-5.6	...
Spain	1.5	5.4	...
Turkey	3.0	-1.2	-8.3

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, various issues.

a/ Estimate based on partial data for Belgium, Finland, Italy, Norway and Sweden; and for all the primary producing countries except Ireland.

Table III-14. Developed market economies: effective exchange rates, 1975-1978

(May 1970 = 100)

	1975	1976	1977	1978
Major industrial countries				
Canada	101.10	106.30	97.80	87.90
France	109.30	103.70	98.50	98.60
Germany, Federal Republic of	127.60	132.30	143.10	153.10
Italy	77.80	63.70	58.60	55.80
Japan	111.70	115.70	128.10	158.90
United Kingdom	78.30	66.30	63.00	63.90
United States of America	83.50	87.70	86.70	78.60
Other industrial countries				
Austria	127.90	131.20	141.70	148.50
Belgium	106.60	107.10	111.90	114.90
Denmark	111.10	113.50	113.80	114.80
Netherlands	113.50	115.80	121.50	124.50
Norway	114.50	115.90	116.60	108.30
Sweden	108.80	109.20	105.90	98.30
Switzerland	145.00	157.00	161.50	198.60

Source: International Monetary Fund, *International Financial Statistics*, various issues.

Table III-15. Developed market economies: export prices adjusted for changes in effective exchange rates

(1975 = 100)

	1976	1977	1978
Major industrial countries			
Canada	111.1	101.0	91.8
France	92.8	94.3	108.0
Germany, Federal Republic of	103.4	123.1	150.6
Italy	77.3	80.4	84.5 a/
Japan	102.3	124.8	189.9
United Kingdom	83.1	90.4	109.7
United States of America	108.8	111.8	111.7
Other industrial countries			
Austria	99.5	120.8	144.0
Belgium	100.5	114.4	135.8 a/
Denmark	104.2	111.6	127.1
Netherlands	103.0	119.9	138.2
Norway	99.2	109.0	109.4 a/
Sweden	103.4	104.1	99.7 a/
Switzerland	110.4	122.5	193.1

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, *International Financial Statistics*, various issues.

a/ Estimate based on partial data.

Chapter IV

THE CENTRALLY PLANNED ECONOMIES

Summary

Economic conditions in the centrally planned economies of Eastern Europe and the Union of Soviet Socialist Republics proved more difficult in 1978 than anticipated, and development patterns diverged significantly from the national economic plans in most countries. The growth of output slowed to the lowest rate experienced in almost two decades, while aggregate claims on resources tended to expand faster than anticipated, which put strains on the state of internal and external balance. External conditions were not favourable for the implementation of policies aimed at reducing trade deficits, especially in trade with the market economies. Export growth slowed down markedly, in spite of efforts to stimulate export production. Import expansion, on the other hand, accelerated and the over-all trade deficit of the region again increased significantly.

Net material product of the European socialist countries increased by 4 per cent and industrial output by 5 per cent, both rates well below past trends and, except in the USSR, also below the targets of the annual plans. Capacity constraints and bottle-necks in the energy, raw material and transport sectors were important factors in the production slow-down; in addition it reflected the trends of reduced labour supply growth and increasing capital intensity of production, and difficulties with attaining planned efficiency and productivity gains. Agricultural production rose by almost 4 per cent, which is all the more satisfactory since it followed a 3 per cent increase in the preceding year.

No significant quickening of economic activity is likely in 1979. Short-run policy objectives of the European centrally planned economies stress efficiency improvements and consolidation rather than acceleration of growth, and the over-all output targets in the annual plans of most countries are only marginally above - and in some cases below - the reduced expansion rates experienced in 1978. In keeping with the continued policy emphasis on improving internal and external balances, aggregate demand expansion and especially investment growth are to be held down; and in several countries plans provide for a significant deceleration of imports, especially in trade with the market economies.

In the Asian centrally planned economies, output performance was mixed. China recorded satisfactory growth with a 3 per cent increase in agricultural output, after several years of stagnation, and industrial growth continuing at about 12 per cent. Imports increased by some 50 per cent in value and exports by 23 per cent, yielding a modest trade deficit. Good agricultural performance also contributed to an accelerated growth of output in Mongolia. A very high rate of industrial growth was reported for the Democratic People's Republic of Korea, but agriculture appears to have lagged. In Viet Nam, economic trends in general seem to have been quite unfavourable.

Eastern Europe and the Union of Soviet Socialist Republics

Overview of current economic trends

In Eastern Europe and the USSR over-all output growth in 1978 was 4.2 per cent, which though still substantial by international standards, is the lowest pace experienced in almost two decades. While in all Eastern European countries 1/ - though not in the USSR - output grew more slowly than planned, aggregate claims on resources tended to expand faster than anticipated in almost all countries of the region, which put some strain on the state of internal and external balance. External conditions were also not favourable for the implementation of policy intentions, which in general appear to have sought to reduce trade deficits, especially in trade with the market economies. In spite of efforts to stimulate export production, export growth slowed down markedly, due in part to weak demand in external markets. Import growth, on the other hand, accelerated significantly in 1978 and the over-all trade deficit of the region, which had declined sharply in 1977, again increased substantially.

In the first half of the 1970s, through the middle years of the decade, when the market economies were going into recession, the European centrally planned economies had continued to grow at a high - and in some cases accelerating - pace.

Eastern Europe and USSR: growth of net material product, 1971-1978

(Average annual and annual rates, percentage)

Country and group	1971-1973	1974-1975	1976-1978	1976	1977	1978
Eastern Europe	7.8	8.1	5.5	6.0	6.0	4.5
USSR	6.1	5.0	4.8	5.9	4.5	4
Eastern Europe and USSR	6.6	5.8	5.0	5.9	5.0	4.2

Source: As for table IV-1.

A strong growth orientation of domestic economic policies, reflected in high and rising investment rates, rapid expansion of energy and raw material inputs, and substantial growth of the non-agricultural labour force were the main factors sustaining this development pace. But the experience of the socialist economies - especially of the smaller, more trade-intensive countries of Eastern Europe - during this period also depended on their partial insulation from world market impulses through the high concentration of their foreign trade on the intra-socialist market with long-term supply and stable price arranagements. Substantial in-flows of external credits also cushioned the transmission of shocks from the world economy.

1/ Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania.

Both the internal and the external conditions of growth changed significantly in the second half of the decade. Mainly for demographic reasons but also as a result of social policy measures, 2/ the growth of the labour supply dropped very sharply in several countries and ceased entirely in others. The expansion of raw material and fuel production also slowed down and at the same time became more costly as low-yield deposits and deposits in increasingly distant and inhospitable regions came under development. In the course of the rapid development of the earlier period, intersectoral imbalances had emerged in some countries which resulted in capacity and supply bottle-necks - especially in the energy and transportation sectors - and affected the efficiency of the production process. Production and social infrastructure investments with long gestation periods acquired increasing priority, while welfare as well as economic goals militated against further increases in the over-all investment rate. At this time the impulses emanating from the world economy also impinged more strongly on these economies as, beginning in 1975, the world market price changes of the preceding period were absorbed - albeit in the muted form of a moving five-year average of world market prices - into the price structure of the intra-socialist market, and the terms of trade of the raw-material importing countries of Eastern Europe deteriorated strongly. Adaptation to these new conditions required in most countries a restructuring of production and use patterns and shifts between domestic and export uses which were bound - at least in the short run - to reduce output growth.

These factors were reflected in the national medium-term development programmes of the socialist countries, the five-year plans for 1976-1980, 3/ and in the emerging medium- and long-term multilateral action programmes of the member countries of the Council for Mutual Economic Co-operation (CMEA), which are aimed at solving common problems through joint planning and investment efforts. In the USSR and all of the Eastern European countries but Romania, the five-year plans provided for reduced output growth and a lowering of investment rates, accompanied by shifts in the pattern of investment in favour of the fuels and raw materials sectors and infrastructure development. The tendency towards the lengthening of the average gestation period of investment outlays inherent in this pattern was expected to be partially offset by the concentration of expenditures on key projects and on the modernization or extension of existing plants in the manufacturing sectors. The focus, especially in Eastern Europe, was to be on gains in supplies of consumer market products and exportables. The stress on expert production was in several countries explicitly linked to the intention of eliminating the foreign trade deficits by the end of the decade. Efforts to increase fuel and raw material supplies were complemented by a strong emphasis on

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2/ Work-week reductions, increases in paid vacations, lengthening of maternity leave periods (and the general impact of pro-natalist measures), expansion of education and training periods etc.

3/ On the five-year plans, see Supplement to World Economic Survey, 1976 (United Nations publication, Sales No. E.78.II.C.2), pp. 95-101; and, for much greater detail, Economic Survey of Europe in 1976, Part II, The Five-year Plans for 1976-1980 in Eastern Europe and the Soviet Union (United Nations publication, Sales No. E.77.II.E.11).

reducing demand growth through economies in their utilization. 4/ Cautious experimentation with planning and management methods, reduced tautness of the internal economic balances, selective investment policies, redeployment of resources and economies of scale from international specialization under the CMEA programmes were expected to result in over-all efficiency gains sufficient to yield accelerated labour productivity growth within the quinquennium in all countries but the USSR. These features of the development strategy for the latter part of the 1970s are summarized in the policy discussions of the socialist countries by the call for "intensive" growth, as contrasted to "extensive" growth, which relies on expanded factor inputs.

Almost from the beginining of the five-year period, however, some of the assumptions and expectations underlying the medium-term plans turned out to be over-optimistic, and by 1978 significant gaps had developed between the original plan targets and the output levels actually achieved, especially in the Eastern European countries. 5/ Though the over-all growth of 5 per cent per annum in the first three years of the plan period continued to be substantial, the downward trend and deviations from the planned patterns resulted in intersectoral, consumer market and external imbalances which required further policy adjustments and in some cases - notably in Poland - radical policy shifts. The general policy discussions and the plan targets for 1979, which are generally in line with the reduced 1978 performance rather than with original intentions, would appear to indicate that in most countries the pursuit of the quantitative targets of the five-year plans has yielded to the broader goal of consolidating the economic structure to provide the base for growth in the next quinquennium. At that time the maturing of some of the major joint undertakings of the CMEA member countries started in the 1970s is also expected to contribute to the elimination of growth barriers. Increased raw material and fuel flows from the jointly financed development projects and productivity and efficiency gains from improved international production specialization resulting from the joint planning efforts are among the most important benefits expected to materialize in the first half of the 1980s.

Among the main elements of divergence from medium-term expectations, what seems to be of broader significance and generally had a strong bearing on developments in 1978 was the fact that output growth of some raw materials - especially metals - and in the fuel and energy sectors slowed significantly and also lagged behind targets. In spite of savings resulting from strong energy and raw material economizing programmes in all countries, supplies generally appear to have grown less rapidly than requirements, and shortages clearly impeded capacity

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4/ Large economies are expected to be obtainable from efforts to curb demand growth in view of the comparatively high ratio of energy use per unit of national income in the socialist countries, which a Hungarian study puts for Eastern Europe at 70-80 per cent over the levels prevailing in the Common Market countries (I.Dobozi, "Raw material and energy policy changes in the CMEA countries," Külgazdaság, No. 1 (1979), p. 12). Both micro-economic efforts (improvements of input nrms and use patterns at the plant level) and macro-economic approaches (changes in the branch structure of industrial growth in particular) are involved.

5/ In terms of net material product, the short-falls relative to the five-year plan targets amounted to 3-8 per cent by 1978 in most of the Eastern European countries and to rather less - almost 2 per cent - in the Soviet Union; in terms of gross industrial output, they amounted to about 3-4 per cent (2-3 per cent in Eastern Europe, about 4 per cent in the USSR).

utilization and production elsewhere in the economy. Apart from the trends in primary inputs, the restructuring of output programmes and the redeployment of investment resources probably had larger short-run costs in terms of output growth than anticipated. Moreover, the rate of growth of labour productivity in industry, which had been expected to rise in most countries, actually declined at a time when labour force increments shrank. Poor harvests in several countries between 1975 and 1977 retarded aggregate growth as well as the growth of industries depending on industrial crops, and strained the external balance by necessitating additional imports of food-stuffs, especially fodder, mainly from developed market economies. In 1978, however, all countries brought in excellent harvests. Export growth targets in trade with the market economies could generally not be achieved, and policies constraining imports to improve the balance of payments, which had acquired force in 1977, probably hurt growth prospects in some countries in 1978 by depleting stocks sufficiently to produce supply bottle-necks.

The outlook for 1979, as reflected in the targets of the national economic plans, is shaped by most of the same factors which affected the 1978 performance, though the good harvest of 1978 and the attendant easing of the fodder supply situation should have a beneficial effect on the domestic growth potential, consumer markets and the external balance in a number of countries. Some improvement in fuel supplies to several Eastern European countries and perhaps a minor easing in the tight electric power balance may be expected in 1979 from the commissioning of two major CMEA projects in this sphere, 6/ but over all, the fuel and energy situation of the region is likely to remain tight in 1979, especially since the production of basic fuels in the Soviet Union, the main producer and supplier of the region, is at best expected to increase at the reduced 1978 pace. Developments in the non-socialist market for fuel in the early part of 1979 can only serve to reinforce this view. The outlook for the implementation of the development goals and patterns in the national economic plans of the socialist countries has already been further clouded by domestic economic developments in the first months of 1979, when difficult production conditions due to unusually harsh winter weather caused widespread supply and energy breakdowns in several countries. 7/

Short-run policy objectives therefore, as noted above, stress efficiency improvements and consolidation rather than acceleration of growth and emphasize the correction of some of the undesired trends - especially in foreign trade and

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6/ The Soiuz natural gas pipeline from the Orenburg deposits to the western frontier of the USSR, which opened late in 1978, and the Vinnitsa (USSR)-Albertirsa (Hungary) 750-kV transmission line linking the United Electric Power Systems of Eastern Europe with the Soviet power grid, which was commissioned in January 1979. Soiuz gas deliveries are expected to come to 8.8 billion cubic metres in 1979 - a 60 per cent increase on Soviet 1977 exports to Eastern Europe - and to reach the contracted 15.5 billion cubic metres annually in 1980.

7/ Industrial production in Poland during the first quarter of 1979 was below the level of the first quarter of 1978 (Trybuna ludu, 12 April 1979). In the Soviet Union, industrial output growth dropped to 3 per cent (Pravda, 25 April 1979). In both countries output declined in comparison with that of January-March 1978 in industries that are either energy-intensive or dependent on bulk transport, or both (ferrous and non-ferrous metallurgy, chemicals and especially petrochemicals, construction materials). Similar problems also affected Czechoslovakia and the German Democratic Republic.

investment - which arose in the preceding year. The over-all increase in output targeted for the group is only marginally higher than the actual rate for 1978, based on slightly faster industrial growth and what generally appear to be quite ambitious agricultural targets. Investment expansion is to be substantially below the 1978 pace in all countries but Bulgaria and the German Democratic Republic and is to cease altogether or be negative in Hungary and Poland. While foreign trade intentions are made explicit only in the plans of some countries (no target figure is available for the USSR), policy discussions generally point to the intention of sharply holding down import growth, especially in trade with the non-socialist countries, and of expanding exports in that direction.

Production and supplies

Total output of the centrally planned economies of Eastern Europe and the USSR, as measured by real net material product, increased by 4.2 per cent in 1978, thus marking the third year of deceleration of growth in the current five-year plan period. Growth slowed down to some degree in all countries of Eastern Europe, with the sharpest decline in Poland (from 6 per cent in 1976-1977 to 2.8 per cent in 1978). There was probably a slowing of net output growth in the Soviet Union also, where national income utilized grew by 4 per cent (see table IV-1). 8/

With the exception of the Soviet Union, where an easing of over-all economic expansion had been envisaged in the annual plan, no country reached the growth target of its 1978 plan. In most countries the planning authorities had expected some acceleration of growth. As noted earlier, in all countries over-all growth - as well as that of the main sectors - is now lagging substantially with respect to the targets set in the 1976-1980 medium-term plans. Since the targets for 1979, the fourth year of the planning period, essentially posit the continuation of the 1978 trends with only a slight acceleration of growth in some countries (see table IV-1), the original goals for 1980 now appear to be out of reach for most countries.

Data on sectoral trends in net value added, whether with respect to plan targets or with respect to the actual changes in 1978, are not available for any of the socialist countries. Judging from trends in gross output measures, as reviewed below, it would appear that industrial performance had a stronger effect on the pattern of net output growth in the region in 1978 than it had in the preceding year, when swings in agricultural production varied widely and strongly affected the outcome in each country. While the growth of agricultural output generally fell short of the very optimistic expectations, total output reached peak or near-peak levels in all countries and, as is usually the case in good harvest years, the net contribution of agriculture to national income growth was probably higher than the increase in gross output. Gross industrial expansion was uniformly below past trends and, with the exception of the Soviet Union, was also below plan targets. This is unusual since industrial gross output targets are strongly

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8/ In the USSR, plan targets and the achievement of the current year are always reported in terms of the growth in total domestic final uses (net material product (NMP) utilized) rather than in terms of the net output of the material sectors of production (NMP produced). In 1977, when the Soviet Union went from a foreign trade deficit into surplus, the net output measure grew at a somewhat higher rate than NMP utilized (4.5 per cent as against about 4 per cent). Since in 1978 the external surplus declined, it may be assumed that net output grew at much the same rate as total uses.

supported by policy measures and the incentive structure of the socialist economies, and are therefore normally met. In addition, planned productivity gains and input economies, which were to have improved the sector's contribution to the growth of net material product, often did not fully materialize, in part owing to the efficiency-lowering effect of energy and transport bottle-necks reported from several countries.

Gross industrial output of the group increased by 5.2 per cent in 1978, as compared to 6.1 per cent in the preceding year and an annual average of 7.8 per cent for the first half of the decade. Growth dropped from 7.0 per cent in 1977 to 6.2 per cent in Eastern Europe and from 5.7 to 4.8 per cent in the USSR. In the Soviet Union the gross output target was over-fulfilled, but in all other countries performance fell short of the plan (see table IV-2). Gains in industrial labour productivity, which ranged from 4 to 7 per cent in Eastern Europe and 3.6 per cent in the Soviet Union, accounted for 75 to 90 per cent of the output increment in most countries and for all of it in Hungary and Poland (table IV-3). 9/

Some features of the sectoral pattern of industrial growth in 1978 may be noted. After a strong advance in the preceding year, the output of the food-processing industry again lagged in a number of countries. 10/ In 1978 this was bound to be reflected in reduced expansion of consumer supplies, especially in large countries like the Soviet Union and Romania, where imports play a relatively small role in this sphere. On the other hand, this sector is likely to contribute more strongly to industrial growth in 1979.

The shift in the structure of industrial output in favour of engineering, metal-working and, in some cases, chemicals continued in all countries, with above-average growth rates for these sectors. The structural shift continued to be very strong in the less industrialized countries of the group but also provided most of the growth impulse in the Soviet Union. In Czechoslovakia, the German Democratic Republic, Hungary and Poland the differential was much smaller, and in some of these countries growth slowed down partly because these industries found it difficult to achieve or maintain the planned export growth.

In the chemical and petrochemical branches, growth targets - both in the aggregate and for key products such as fertilizers - were frequently not met, in spite of high expansion rates in some countries, and in the Soviet Union growth slowed down for the third year to a relatively modest 6 per cent. In several countries this may be connected with the tense fuel and energy situation and with transport bottle-necks.

Metals, especially steel and steel products, continued to be bottle-neck items in a number of countries, and complaints were frequently heard about excessive import dependence in this sphere. New capacity was slow to come on stream and output targets were frequently not achieved, but output increases in 1978 were better than those of the preceding year, though still below the trends of

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9/ Productivity growth was lower than in the preceding year and below the target of the annual plan in most countries, however, and in all countries below the five-year plan targets.

10/ The food-processing industry provides about 20 per cent of the value of industrial output in the Soviet Union and several other centrally planned economies, though its share in industrial employment does not exceed 10 per cent in most cases. Hence, swings in the sectoral growth rate can have a substantial effect on aggregate industrial growth.

the early 1970s. Thus, steel output in the region increased by 3.2 per cent in 1978, as against 2.8 per cent in the preceding year. 11/

As noted earlier, the tight fuel and energy balance as well as cost trends, appear to have been a major factor in the slow-down of output growth in the region in 1978. During the year, emergency programmes were invoked in a number of Eastern European countries to achieve short-term energy savings through utilization restrictions and rationing measures and to reduce energy consumption trends in the medium term. While programmes to reduce the energy and material intensity of production have been a prominent feature of the planning process in the socialist countries for some years now, there seems to have been a distinct upswing in their urgency and the sharpness of policy instruments applied in 1978.

Apart from the burden - especially on the Eastern European economies - of the rising cost of imported and domestic fuel supplies, expansion appears also to have been constrained in some countries by inadequate reserves for peak-load periods in electricity generating capacity. In Poland, for instance, this resulted in some costly system breakdowns.

In the absence at this time of data on short-term trends in fuel and energy trade, it is not yet possible to determine whether there was a noticeable break in fuel consumption or availability in any country, and to this extent the above conclusion is based on somewhat impressionistic evidence. Production trends, however, were clearly lower than in the recent past and are unlikely to pick up in the near future. Electricity output in the region increased by 4.8 per cent in 1978, which was an improvement on the preceding year but much below the trend rate for the first half of the decade. Plans for 1979 imply an aggregate rise of 5.4 per cent. The production of basic fuels in the region (petroleum, natural gas and coal, aggregated in terms of coal equivalents) increased by 3.7 per cent in 1978, somewhat less than in the preceding year and well below the almost 5 per cent expansion pace of the recent past.

11/ Steel output of the region had grown at an annual average rate of 4.4 per cent in 1971-1975. In the Soviet Union, steel production and the output of rolled products and steel pipe rose by 3 per cent each in 1978, as against 1 per cent or less in 1977, but in each case output fell short of the annual target. To reach the original five-year plan target by 1980, increases of close to 6 per cent would be required in the next two years.

Eastern Europe and USSR: trends in basic fuel production, 1970-1978

	Output a/			Growth rate			Structure	
	1970	1975	1978	1971-1975	1977	1978	1970	1978
Petroleum	522.1	726.7	841.6	6.5	5.3	4.5	36.0	40.5
Natural gas . . .	260.1	376.2	466.4	7.7	8.1	7.1	18.0	22.4
Hard coal	490.5	560.3	587.4	2.7	1.8	1.1	33.8	28.2
Brown coal . . .	176.6	180.7	185.5	0.5	1.4	-0.1	12.2	8.9
Total . . .	1,449.4	1,844.7	2,080.8	4.9	4.3	3.7	100.0	100.0

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national plan fulfilment reports: Press-Biulleten' Sekretariata SEV No. 2, (1977); and Statisticheskii ezhegodnik stran-chlenov SEV 1978 (1978).

a/ Millions of tons of standard coal equivalent. Standard "coal equivalent" coefficients: petroleum, 1.43; natural gas, 1.19; hard coal (average, all grades), 0.8; brown coal, 0.3.

More than 90 per cent of the gain in fuel production was in the Soviet Union, the major supplier to the region but also a large-scale exporter to outside markets and almost 70 per cent of the increase was provided by petroleum and natural gas, hcommodities for which a ready external market exists. Soviet output targets for 1979 imply a further deceleration to 3.7 per cent in oil output growth, somewhat faster growth in gas and much faster growth in coal than has been achieved in a number of years. If all these targets are met, Soviet production of basic fuels could increase at a somewhat higher rate than it did in 1978, but on the basis of the past record and in view of the very high coal targets, a more likely outcome is expansion at an unchanged pace.

Aggregate intraregional supply of fuels is thus not likely to improve significantly in the short run, though in some countries, as noted earlier, the opening of the Soiuz natural gas pipeline will bring some relief, especially when full capacity is achieved in 1980. Peak-load overburdening of electricity generating capacity may also be somewhat eased by the linking of the USSR and Eastern European power grids. 12/ But extra-regional sources of supply clearly assume increasing significance for the fuel-importing countries of Eastern Europe,

12/ When fully operational, though perhaps not in 1979, the Vinnitsa-Albertirsa link is to result in transmission from the Soviet Union to Czechoslovakia, the German Democratic Republic and Hungary of some 6.4 billion kWh of electricity annually, which amounts to 3.5 per cent of the joint power generation of those countries in 1977.

and the price movements of early 1979 have already added additional and probably unanticipated constraints on an improvement in supplies through an increased volume of imports. 13/

The strategic and long-term nature of the energy issue was acknowledged in the fact that two of the first three long-term target programmes for international economic co-operation adopted at the summer, 1978, session of CMEA are devoted in large part to activity in this field. Both the programme on energy, fuels and raw materials and the supporting programme on machine construction emphasize the accelerated development of nuclear power generation. The programmes envisage the construction in the course of the 1980s in the Eastern European CMEA member countries and in Cuba of nuclear plants with an installed capacity of 37,000 MW (about 46 per cent of the generating capacity in the six Eastern European countries at the end of 1977). Additional plants are to be built in the western USSR for the joint use of the Soviet Union and the participating Eastern European countries. 14/

The outlook for industrial growth in 1979 varies considerably from country to country. An acceleration of growth is expected in the USSR (from roughly 5 to 6 per cent) and also in Bulgaria and Romania, based in part on much stronger performance expectations for the food-processing sector. In the German Democratic Republic continued expansion at an unchanged pace is envisaged, whereas in the remaining three countries growth is planned to slow substantially. In Hungary and Poland - and perhaps also in Czechoslovakia - this is part of a deliberate strategy to permit an easing of strains in the economy and to reduce pressure on the external balance. For the region as a whole these plan targets yield an increase in the growth of industrial output to almost 6 per cent (see table IV-2).

Gross agricultural output of the European centrally planned economies increased by 3.6 per cent in 1978, all the more satisfactory because it followed a 3.0 per cent increase in the preceding year. The output rise was 4 per cent in the Soviet Union and 3 per cent in the Eastern European socialist countries as a group, with rates varying between 2 and 5 per cent in individual countries (see table IV-4). The year's outturn was unusual in that agricultural output increased in every single country of the group, and probably in most cases in both the crop and livestock sectors, a set of circumstances which has not occurred in any year since 1966.

Total agricultural production and livestock sector output exceeded preceding peaks in all countries except Bulgaria, but in most countries this was not the case

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13/ Prices are also scheduled to rise in 1979 in intra-regional trade. Under the price-determination formula employed since 1975, which is based on a five-year moving average of world market prices, this should be the first year with a full adjustment to the post-1973 world market price level for oil.

14/ Planning on these projects appears to proceed quite rapidly since framework agreements on two of them were already being negotiated - and in one case concluded - in December 1978 and March 1979. They involve the construction of two 4,000 MW nuclear plants (in Khmelnik and Konstantinovka, western and southern Ukraine) and of 750 kV transmission lines to Poland, in one case, and to Bulgaria, in the other.

for crop sector production. Though harvests were generally very good and the tightness of fodder supplies - which in some countries had necessitated substantial additional imports in recent years - has certainly diminished, the question of ensuring a sustainable long-term balance in the development of the two sectors remains. This is particularly true in Poland, where livestock herds have now fully recovered from the setback of the mid-1970s, but the capacity of the crop sector to sustain this stock has improved only very little.

In spite of the generally satisfactory outturn, these results were in most countries below the targets of the annual plan which had been set on the assumption of average or above-average climatic conditions. In fact weather conditions had not been at all favourable, especially in the northern-tier countries and the northwestern USSR, where a cold summer delayed the maturing of crops and heavy rains in the fall impeded the harvesting. The improved outcome relative to 1977, when very similar conditions prevailed, is probably due more to organizational and management improvements after that year's experiencee, especially in the preparation and organization of harvesting and bunkering equipment, than to climatic differences.

The over-all crop production of the region was about 5 per cent above that of the preceding year. Its key determinant was the change in grain output, which increased by 16 per cent and reached 317 million tons. The harvest in the USSR was 235 million tons, a 20 per cent increase on the preceding year and the highest level ever achieved. It brought the average for the first three years of the five-year plan to 218 million tons, well within the target range (215 million-220 million tons). In Eastern Europe, Czechoslovakia and Hungary also achieved record grain harvests. Non-grain crops generally did not do so well or even declined slightly from the preceding year's level. Total output of the livestock sector increased more modestly, perhaps by 3 per cent, and consumer supplies of meat rose by about the same amount for the region as a whole. Milk output declined marginally in the Soviet Union, probably reflecting a tight fodder situation prior to the 1978 harvest, but rose by about 3-4 per cent in Eastern Europe.

Resource use and internal balance

Economic policies for 1978 in the European centrally planned economies generally aimed at keeping the expansion of aggregate domestic resource uses (NMP distributed) below that of aggregate output (NMP produced). Though this relationship was explicitly stated only in the economic plans of Hungary and Poland, 15/ an approximate aggregation of separate investment and consumption plan indicators shows that similar intentions can be ascribed to all countries of the region but Romania. Especially in the Eastern European countries, considerations relating to both internal and external balance shaped those policies, reflecting pressures that are likely to dominate aggregate demand management for the next several years. Reduced investment expansion and, in a number of countries, restrained consumption growth were to permit an improvement in the foreign balance and a reduction of internal supply tensions.

15/ In Hungary, NMP produced was to increase by 5 per cent whereas aggregate uses (NMP distributed) were to grow by 2 per cent only. In Poland the corresponding plan targets were 5.4 per cent and 3.4 per cent, respectively.

In contrast to the preceding year, performance diverged substantially from policy intentions in most countries in 1978. Although comprehensive data are not yet available in most cases, it appears that only in Poland and perhaps in Bulgaria could the planned relationship between aggregate output and resource-use expansion be implemented. 16/ While consumption targets were generally met, investment growth goals were exceeded throughout the region, and in the face of generally below-plan output growth, total uses probably grew at a higher rate than output in most countries, with the result of increased tautness in domestic balances and a rise in the external deficit of most of the Eastern European countries.

With the exception of Romania, all countries of the region had sought to reduce the growth of investment expenditures in 1978. In Eastern Europe, investment growth was to slacken from about 7 per cent in 1977 to about 5 per cent, and in the Soviet Union, though the slowing against the preceding year's expansion was only marginal, the planned rate of 3.4 per cent was much below the 6 per cent growth during the earlier years of the 1970s and, perhaps more significantly, below the planned national income growth (see table IV-5). Actual expenditures in 1978 were larger than planned in most countries. The investment overrun was particularly notable in Hungary where - as in 1977 - excess enterprise liquidity resulted in very rapid growth of the decentralized component of investment, and total investment, which was to have been held at the 1977 level, rose by 8 per cent at current prices, or 4 per cent in real terms. 17/ In Poland, where a small decline in the absolute level of investment was planned, total spending was very close to the 1977 volume. With a 5.2 per cent increase, investment outlays also rose substantially faster than planned - and faster than national income - in the Soviet Union.

In several countries - notably in Czechoslovakia, Poland and the USSR - the investment plans for 1978 involved shifts relative to the original five-year plans in the sectoral allocation of outlays, generally raising the shares of fuels and energy, raw material development, and transport. In the German Democratic Republic, these sectors absorbed 60 per cent of total industrial investment in 1978, as against 58 per cent in 1977. Investment policies in all countries stressed efforts to improve the efficiency of the investment process; in particular, resources were concentrated on designated priority undertakings and new investment starts were restricted (in order to cut back the excess number of unfinished projects), and the share of total outlays going to the modernization and re-equipment of existing facilities was raised as a way to obtain more rapid results and to offset the rising over-all gestation period of capital expenditures. While some gains may have been achieved in the latter respect,

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16/ Albeit, in Poland, at a much lower level than planned: NMP produced increased by 2.9 per cent and NMP distributed increased by less than 1 per cent.

17/ In Hungary, this contributed to the 25 per cent increase - as against a planned small reduction - in net accumulation (net increase in fixed assets plus inventory change), though the bulk of this must have stemmed from excess inventory build-up in domestic - and probably also imported - intermediate and finished products.

aggregate targets for investment completions were generally not attained and only Czechoslovakia appears to have reduced the backlog of unfinished investment. 18/

Plans for 1979 indicate a renewed intention to contain investment growth in most countries of the region. Accelerated growth of expenditures is envisaged only in Bulgaria, where difficulties in the construction sector had caused investment to fall substantially short of the plan in 1978, and in the German Democratic Republic. For the region as a whole, outlays are to expand by about 2 per cent, as against the almost 5 per cent annual rise of the past three years (table IV-5). Allocation priorities remain very much the same as in recent years, with emphasis on productive infrastructure, on agriculture in the Soviet Union, and on the modernization of existing plant, with particular stress on the production of exportables in Eastern Europe. A further radical restructuring, however, is planned in Poland, where a 10 per cent reduction in aggregate investment spending as part of the economic consolidation drive is to be accompanied by a systematic concentration of resources on very short-term gains, especially with respect to consumer market equilibrium and export supplies. 19/

Though data on changes in aggregate real consumption in 1978 are not yet available for most of the European centrally planned economies, it would appear from partial indicators (see table IV-6) and qualitative information that growth was generally below the 1976-1977 average and in all cases substantially slower than in the first half of the decade. This reflected the slowing growth in net output and in some instances the pressure of increased investment claims. With the exception of Poland, however, where real consumption growth slackened sharply from about 8 per cent in 1976-1977 to near 1 per cent in 1978, the changes were small and the increases would seem to have been over 3 per cent in all countries and substantially higher in Bulgaria and Romania.

Household money incomes increased generally by 2-4 per cent, but substantially faster - by 8-10 per cent - in Hungary, Poland and Romania. Increases in wage

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18/ Modernization outlays on existing plant reached 57 per cent of total expenditures in Bulgaria (as against 23 per cent in 1975) and 51 per cent of investment in the material production sphere in the German Democratic Republic. The value of new fixed assets put into operation exceeded total investment expenditures by 8 per cent in Czechoslovakia but fell short of new expenditures by 7 per cent in the USSR, by 11 per cent in Bulgaria and, in spite of reduced outlays, by perhaps as much as 40 per cent in Poland. Increases in the stock of unfinished investment had been expected in Hungary and probably in Romania also, but in both countries the growth was more than planned.

19/ Polish investment activity is to focus on projects that can be completed in 1979 and the first half of 1980, whereas work on other projects will be reduced and in some instances temporarily suspended. The food and housing complexes will obtain increased allocations and absorb 53 per cent of the reduced outlays, with correspondingly sharper cuts elsewhere, especially in engineering industry. Only in these sectors will new investment starts be admitted. Investment in agriculture and housing construction, in the narrow sense, will constitute almost 40 per cent of total expenditures, as against 30 per cent in 1976-1977. (Zycie gospodarcze, 3 December 1978; Monitor Polski, 27 December 1978).

income derived from general wage and salary adjustments for certain groups of workers, 20/ productivity and shift-work incentives (especially in the German Democratic Republic and Hungary), cost-of-living increase compensations (in Hungary), and general wage drift (especially in Poland). In some countries, transfer payments increased more rapidly than money wage incomes - notably in Poland, where pensions were raised and new maternity benefits were introduced in 1978. Pensions were increased also in Hungary, Romania and the Soviet Union, and family allowances were improved in the German Democratic Republic and Romania.

Consumer purchasing power was matched by increases in consumer supplies in most countries of the group, though in the countries with very high money income growth - notably Hungary and Romania - probably at the expense of additional imports. In Poland, however, nominal income growth was substantially above the increase in retail supplies, which caused significant market disequilibrium. Money incomes may also have risen faster than retail supplies in the Soviet Union, but to a lesser degree.

All countries of the region continued to adhere to their policy of keeping the prices of basic food-stuffs at established levels by absorbing rising production costs through budgetary subsidies, 21/ but policies varied with respect to the remainder of the consumer price system. Retail prices for a wide variety of products were changed in the Soviet Union early in 1978, but in keeping with established policy the adjustment of relative prices probably took place within the confines of the existing price level, price reductions offsetting price increases. The consumer price level probably remained unchanged in the German Democratic Republic also and seems to have risen by about 1 per cent or less in Bulgaria and Czechoslovakia. In Hungary, Romania and Poland, on the other hand, the national economic plans provided for increases in the consumer price levels. Hungary in particular now pursues a policy of systematically adjusting consumer prices to cost levels and domestically or externally generated cost changes and of gradually reducing subsidies. Retail price changes in Romania were somewhat below the planned rise, but actual cost-of-living increases in Hungary and, to a much more significant degree, in Poland (8.5 per cent) surpassed the planned limits. While in Hungary and Romania the price rises absorbed only a part of the gains in houshold money income, in Poland most of the nominal gains were eroded, and the average real wage in fact appears to have declined by 2.6 per cent, the first such loss since 1960.

20/ In Poland, minimum wage levels were increased in 1978; in the USSR, the upgrading of wage scales for personnel in the service sectors continued; wages in some service sectors were also increased in Hungary; in Romania, the first stage of a general wage reform included in the current five-year plan was completed.

21/ In Poland, for instance, budgetary price subsidies for food-stuffs more than doubled between 1975 and 1978 and accounted for almost one fourth of total state budget outlays in the latter year. State subsidies added 73 groszy to every consumer zloty spent on food-stuffs in socialist trade, or paid for some 43 per cent of total production cost (Nowe drogi, No. 1 (1979), p. 33).

Foreign trade and external balance

Changes in the foreign trade of the European centrally planned economies in 1978 sharply reversed the pattern of the preceding two years, when exports of the group had expanded at a substantially faster pace than imports and the external balance of the region had improved significantly. In 1978, export expansion slackened in almost all countries, import growth accelerated and exceeded export growth in several countries, and the aggregate foreign trade deficit of the countries of the region increased to $5.4 billion from $2.0 billion in the preceding year.

Eastern Europe and USSR: growth of foreign trade value and volume, 1971-1978

(Average annual and annual rates in percentage)

	1971-1973	1974-1975	1976-1978	1976	1977	1978 a/
Value						
Exports	12.0	20.3	12.1	13.6	14.7	8.1
Imports	13.4	26.6	9.6	9.6	8.0	11.2
Quantum						
Exports	8.9	7.9	6.7	7.9	8.7	3.5
Imports	11.0	9.8	5.9	6.7	3.9	7.2

Source: See table IV-7 for value growth data. Value growth rates are expressed in terms of transferable roubles. Except for the 1978 estimates, quantum growth is obtained from an aggregation of national data and of United Nations estimates for countries not reporting quantum series (Romania for all years, German Democratic Republic for 1977). For 1978, information on price changes in Hungarian foreign trade is used to deflate value data.

a/ Preliminary estimates.

This reversal was apparently not the consequence of changes in the national policies which had shaped the pattern of 1976-1977 but rather the result of slippages in the implementation of these policies in a number of countries. As noted above, in most of the Eastern European countries further corrections of the external imbalance were among the plan targets - goals which were to be supported both by an easing of internal demand pressure and by strong export drives. But as output generally fell short of expectations while final demand - in particular, investment demand - expanded faster than planned, imports in a number of countries tended to grow faster than expected. Export targets, on the other hand, could not always be met, due partly to supply difficulties and problems in the adjustment of production to market requirements 22/ and partly to lagging demand as well as protectionist trends and impediments to market access in the developed market economies. In several Eastern European countries - notably in Czechoslovakia and Poland, and perhaps also in the German Democratic Republic - the intended broad pattern of more rapid growth of exports than of imports was nevertheless achieved, but in other countries - notably in Hungary and Romania - import growth far outran that of exports. For Eastern Europe as a whole, import growth (8.8 per cent) was only marginally above export expansion (8.7 per cent). The result for the group reflected a strong upsurge of imports into the Soviet Union, both from the market economies - where an upswing in grain imports probably dominates the rate of change - and from the other socialist countries (see table IV-7). 23/

The intention to continue the pursuit of external adjustment is expressed in the plans for 1979. While not all centrally planned economies publish separate targets for exports and imports, in all cases where these data are available, export growth is to outpace that of imports, especially in trade with the non-socialist countries, and by substantial margins in some cases (see table IV-8). On the basis of policy discussions, similar intentions may be attributed also to the remaining Eastern European countries. No foreign trade targets have been published in the USSR for 1979, but trade swings in that country have tended to be roughly compensatory in successive years.

Volume, direction and composition of trade

Although estimates of changes in trade volume can at present be only approximate, all indicators point to trends which are very similar to those in trade value, with a sharp slow-down in export growth and an acceleration in the growth of import volume. Across the board and measured in the national foreign trade currency units, prices appear to have increased by roughly 4 per cent (a little more for exports and a little less for imports), but this reflects different rates of price change, both within the socialist trading area and outside, as well as different exchange rate policies with respect to the two currency areas. Average unit values in trade among the socialist countries appear to have risen about 5-6 per cent, and perhaps as much as 9 per cent in the case of Soviet exports in which fuels and raw materials play a large role. In trade with the market economies, prices probably rose about 7-9 per cent in dollar terms, but

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22/ A sharp drop in Romanian export expansion was attributed to supply shortages, especially with respect to agricultural products and petrochemicals (where an explosion in a major plant had reduced output in the last quarter of the year). In Czechoslovakia, Hungary and Poland, plan targets for the production of industrial exportables were not met. Supply constraints may also have been behind the 1 per cent drop in Soviet exports to the developed market economies, considering that petroleum exports have in recent years made up more than 50 per cent of these flows and the fuel balance appears to have been tight in 1978.

23/ The very strong (21 per cent) rise in Soviet imports from socialist countries, most of which appears to have occurred in the last quarter of the year, is not counterbalanced by an equivalent upsurge in exports in the national data of the Eastern European countries.

substantially less - probably by less than 1 per cent - in terms of the area's currencies, since most countries revalued against the dollar during 1978. 24/

On the basis of these price estimates, the growth of export volume appears to have slowed from 9 per cent in 1977 to 3-4 per cent in 1978, whereas the growth of import volume rose from 4 per cent to 7 per cent. The reversal of export and import behaviour mainly reflects developments in the Soviet Union, where wide year-to-year fluctuations are common and export growth fell from 9 per cent in 1977 to 2 per cent or less in 1978, while import expansion accelerated from 2 per cent to almost 12 per cent. But the change of pace was notable also in Eastern Europe, where export volume growth declined from over 8 per cent in 1977 to slightly over 4 per cent in 1978 and where the growth of imports fell from about 5 per cent in 1977 to about 4 per cent in 1978.

Patterns in the directions of trade show the slackening of export growth to be reflected in the flows to all major partner groups, whereas the upswing in over-all import growth stemmed from the strong recovery of imports from the developed market economies. Imports from other socialist countries and from developing countries were generally growing at lower rates than in the preceding year.

24/ Estimates of 1978 price movements are based on Hungarian data (*Statisztikai havi közlemények*, No. 2/3 (1979), supplemented by United Nations data on prices in trade of the market economies. In trade with the rouble area, Hungarian export prices declined slightly while import prices rose by 1.5 per cent in forint terms; since the Hungarian forint was revalued against the transferable rouble (TR) by about 5.7 per cent (on a time-weighted basis for the whole year), this yields price increases in terms of roubles of 4.8 and 7.2 per cent for Hungarian exports and imports. Price changes varied substantially between commodity groups, with the largest shift (19-20 per cent in TR-terms) in the fuel and energy category. An estimate of price movements in Soviet trade with the CMEA countries can be obtained by weighting the Hungarian data for separate commodity groups with the share of those groups in Soviet exports and imports. On this approach, Soviet export prices appear to have risen by 8-9 per cent in TR terms, and Soviet import prices by 4-5 per cent. In trade with the dollar area, Hungarian export prices declined slightly less and import prices slightly more than 1 per cent in forint terms, which, after adjustment for the revaluation of the forint against the dollar (8.2 per cent), translates into shifts in dollar terms of about 7 per cent for exports and 8 per cent for imports. This accords well enough with information on trends in trade between the market economies, and deflators of this order of magnitude, corrected in each case for the exchange rate adjustments, were applied to the national data on trade value to obtain estimates of trade volume change.

Eastern Europe and USSR: growth of foreign trade value, by direction, 1971-1978

(Average annual and annual rates, percentage)

Trade partner group	1971-1973	1974-1975	1976-1978	1976	1977	1978
Exports to:						
World	12.0	20.3	12.1	13.6	14.7	8.1
Centrally planned economies	10.1	19.9	12.0	11.8	14.0	10.1
Developed market economies	16.8	20.7	9.9	18.5	8.9	2.8
Developing countries	12.2	20.9	16.9	11.2	30.4	10.3
Imports from:						
World	13.4	26.6	9.6	9.6	8.0	11.2
Centrally planned economies	10.1	20.4	13.1	10.5	15.4	13.4
Developed market economies	21.6	33.1	5.0	9.8	-3.3	9.1
Developing countries	10.1	39.0	7.9	4.3	12.2	7.2

Source: See source and foot-note a/ to table IV-8.

Trade among the socialist countries expanded both in value and in volume substantially faster than the trade of the group with the market economies. As in 1977, the most dynamic element in the intra-group trade were the exchanges between the USSR and the other countries of the group, while trade among the Eastern European countries appears to have been expanded relatively little. In contrast to the trend of recent years, Soviet imports grew much faster than Soviet exports and the trade imbalance in Soviet/Eastern European relations almost closed. 25/ This may be the result of policies to achieve a structural adjustment in trade relations rather than a short-term swing. In the years since 1975, when the intra-CMEA price relations began to be gradually adjusted towards the world market price structure and fuel and raw material prices started to rise rapidly relative to those of

25/ In 1978, Soviet deliveries to Eastern Europe increased by 12 per cent in value (3-4 per cent in volume) and Soviet imports from Eastern Europe increased by 21 per cent (perhaps 16 per cent in volume), as against an average annual growth in 1975-1977 of 21 per cent in value (about 5 per cent in volume) for Soviet exports and of 117 per cent in value (7 per cent in volume) for Soviet imports. The Soviet surplus in trade with the region, which had risen from 105 million roubles in 1974 to 1,414 million roubles in 1977, dropped to 169 million roubles in 1978.

other commodities, 26/ a Soviet export surplus vis-à-vis its Eastern European trade partners, which increased to almost $2 billion in 1977, had provided the fuel-importing countries of the region with a breathing span in which to make the adjustments required by the deterioration in their terms of trade.

Exports to the market economies increased by about 5 per cent in value - by about 8 per cent in the case of the Eastern European countries and by less than 2 per cent in the case of the Soviet Union. Imports from outside markets rose by 7-8 per cent in both Eastern Europe and the USSR. In quantum terms, exports to the market economies may have increased by some 2-3 per cent and imports by perhaps 6 per cent; as in the case of value, this represents a reversal of the 1976-1977 trends when export volume rose faster than total net output of the socialist countries and real imports declined.

Short-term trends in trade with the developed market economies are mainly responsible for this pattern, though exports to developing countries also increased at a reduced rate in 1978. After substantial growth in the preceding two years, Soviet exports to the industrial market economies, the overwhelming bulk of which consists of fuels and raw materials, declined in value (in rouble terms) 27/ and almost certainly in volume also in 1978, and in spite of continued policy efforts to stimulate the production of exportables and sales in this direction, most Eastern European countries managed to achieve only moderate growth for the second year. Protectionist measures and slack demand in the market economes as well as production shortfalls in the socialist countries contributed to this lag in export growth. 28/ On the other hand, imports from the developed market economies resumed expansion in most socialist countries in 1978 after generally moderate growth or an absolute decline in 1977. The sharp import constraints of the preceding year were maintained only in Poland, where imports declined for the second year, but in several countries - as noted earlier - plan targets and trade policy had aimed

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26/ Prior to 1975, foreign trade prices in the intraregional trade were adjusted approximately every five years and held relatively stable over this interval, reflecting during this period average world market relationships of a preceding five-year period (e.g., in 1971-1974, those of the late 1960s). As of 1975, these prices are annually renegotiated on the basis of a moving five-year average of world market prices, a formula which in itself both postponed and smoothed the impact of the post-1973 world price structure on the fuel importers of the region. Thus the price of crude petroleum in 1978 was still substantially below world market levels - by about 23 per cent in the case of Polish imports from the Soviet Union in comparison to those from market economies (Polityka (14 April 1979)). None the less, by 1978 fuel and energy prices on the intra-CMEA market had approximately trebled in comparison to 1974, while the prices of most manufactured products had increased by 20-40 per cent. The resulting loss in terms of trade was about 15 per cent in the case of Hungary.

27/ Export earnings in terms of dollars none the less increased by almost 7 per cent, yet this too is a sharp drop from the 18 per cent growth rate in 1976-1977.

28/ Measured in dollar terms, exports to the developed market economies rose by 11 per cent in 1977 and by 9 per cent in 1978, whereas total imports of the Western countries increased by 13 and 14 per cent in those years; the socialist countries thus lost some of their share in Western markets in the past two years.

at much more moderate import growth than actually occurred, and compensatory measures - reduced targets and tighter constraints - appear in the plans for 1979 (table IV-8). In the case of the Soviet Union, almost one half of the import upswing is explained by increased imports from the United States, mainly of grains and grain products, but there were substantial increases also in imports from the United Kingdom, Japan and the Federal Republic of Germany, which mainly supply capital goods.

Trade with the developing countries, which still has a comparatively small share in the foreign trade of all centrally planned economies other than Romania and the USSR 29/ and tends to exhibit rather wide swings in year-to-year changes, generally grew at a reduced pace in 1978. The slow-down is evident both in the imports of the socialist countries, where it may reflect declining prices, 30/ and in their exports. In the case of the Soviet Union, the value of exports to developing countries increased by 10 per cent, after a rise of near 37 per cent in 1977, but almost all of the increase occurred in trade with two countries - Cuba and Iraq. 31/ Imports from developing countries increased by 5 per cent, but again growth was concentrated on a very few substantial trade partners - in fact, if Cuba is excluded, imports value not only shows an absolute drop against 1977 but also falls some 6 per cent below the previous peak reached in 1975. 32/ Exports grew rather more slowly than in the preceding two years and imports also declined in a

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29/ In 1977, the share of developing countries in the exports and imports of the Eastern European centrally planned economies was 9 and 7 per cent, respectively, as against 8 and 6 per cent in 1970. The small increase was caused almost entirely by the substantial restructuring over this period of Romanian foreign trade, where the share of developing countries in exports rose from 10 to 23 per cent and in imports from 7 to 16 per cent. In the case of the USSR, developing countries took 21 per cent of total exports (16 per cent if Cuba is excluded) and supplied 16 per cent (8 per cent) of imports, shares which have remained quite stable since 1970.

30/ As noted elsewhere in this _Survey_, in dollar terms the prices of commodity exports from developing countries excluding crude petroleum dropped about 7 per cent in 1978 while petroleum prices remained unchanged. Since the national currencies of the socialist countries were generally revalued against the dollar during the year, the drop in the deflator applicable to the import value data used here may have been even larger.

31/ Exports specified by country of destination declined for all geographical regions except Western Asia, and the unspecified residual - the difference between total exports to developing countries and the partner-specified flows - which in recent years had taken a rising share of the total, remained unchanged in 1978 but still accounted for 50 per cent of Soviet exports to the developing countries.

32/ In dollar terms, however, Soviet imports from developing countries other than Cuba rose by 2 per cent over 1977 and just recovered the 1975 level.

number of cases in Eastern Europe. 33/ In consequence of these trends, the trade account surplus of the centrally planned economies with developing countries increased from $3.9 billion in 1977 to $5.0 billion in 1978 (see text table in the following section).

In view of the increasing use of convertible currency settlements in place of clearing accounts in socialist trade with the developing economies, the bulk of this surplus is probably settled through the regular payments mechanism. However, disbursements of development aid credits and counterdeliveries of goods in repayment of earlier credits account for a significant part of both export and import flows. In the case of the Soviet Union, deliveries of machinery and equipment to projects constructed with Soviet aid in developing countries amounted to $627 million in 1976 and $755 million in 1977, or 13 and 10 per cent of total exports to developing countries other than Cuba. 34/ While on the export side the share of these disbursements - which may not cover all development aid deliveries - has been declining in recent years, repayments of earlier credits in the form of commodities produced by the plants constructed with Soviet assistance have constituted a very rapidly increasing component of Soviet imports from developing countries. Such counterdeliveries came to $680 million, or 17 per cent of Soviet imports from developing countries other than Cuba, in 1977 and rose to over $1 billion (25 per cent of such imports) in 1978. 35/

Balance of trade and external debt position

The 1978 pattern of export and import trends resulted in a movement towards the adjustment of trade imbalances in the intra-group trade of the socialist countries and a movement in the contrary direction in the external relationship of the group. In trade among the socialist countries, the imbalance between the value of Soviet deliveries to the countries of Eastern Europe and Soviet imports from those countries, which had been rising rapidly in the preceding two years, was substantially reduced in 1978 through accelerated Soviet import growth, which may have involved some trade diversion. In trade with the market economies, the adjustment goals on the policy agenda of several countries could not be reached and

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33/ Final data on trade with developing countries are available only for Czechoslovakia, Hungary and Poland; exports of these three countries rose by 8 per cent, while imports stagnated. The estimates of export and import growth in table IV-7 of about 11 per cent each have a rather wide error margin since data for several countries - in particular, for Romania, which accounted for 26 per cent of the Eastern European countries' transactions with developing economies in 1977 - had to be derived residually.

34/ Deliveries to Cuba in the same category came to $151 million in 1976 and $195 million in 1977. Data for 1978 are not yet available. These figures refer only to disbursements in the form of machinery and equipment deliveries to projects constructed with Soviet assistance and may thus omit resource transfers in the same commodity class not related to projects; resource transfer in other commodity classes are, by definition, not covered. Data from Vneshniaia torgovlia SSSR za 1977 g. (1978).

35/ I. Karpanov in Ekonomicheskaia gazeta, No. 12 (March 1978), and No. 14 (April 1979).

the merchandise trade deficit of the socialist countries increased again after a substantial improvement over the preceding two years, due to the combination of depressed export and accelerated import expansion. The aggregate external deficit of the seven countries (including intragroup trade) increased from $2.0 billion in 1977 to $5.6 billion in 1978. The combined deficit with the developed market economies rose by almost $3 billion, thus nearly eliminating the gain of the preceding year, but part of this was offset by a further increase in the surplus in trade with the developing countries of over $1 billion.

Eastern Europe and USSR: trade balance, 1970-1978

(Billions of dollars)

	Eastern Europe				USSR			
	1970-1976	1976	1977	1978	1970-1976	1976	1977	1978
Total	-18.1	-6.2	-6.3	-7.0	-0.0	-0.9	4.3	1.6
Centrally planned economies	1.9	-0.4	-1.6	-1.6	3.6	2.0	2.7	1.1
Developed market economies	-22.6	-6.3	-5.7	-6.6	-11.3	-3.9	-1.3	-3.3
Developing countries	2.6	0.6	1.0	1.2	7.7	1.0	2.9	3.8

Source: See source and foot-note a/ to table IV-8.

These trends were broadly similar in most countries. Only Czechoslovakia and Poland narrowed their deficits with the market economies, and in both cases this was achieved through an absolute reduction of imports - with respect to developing countries, in the former case, and with respect to developed market economies, in the latter. In the case of Poland, the movement towards external adjustment was probably quite costly in so far as the import constraints contributed to the sharp decline in output growth.

Very little information is available on the arrangements for financing the observed imbalances in trade between the socialist countries and the net export surpluses in trade with the developing countries. Substantial new borrowing in Western capital markets, government-supported export credits of the supplier countries, direct supplier credits and gold sales financed the current account gap in the relationship with developed market economies. The net convertible currency debt of the seven European centrally planned economies (including the CMEA banks) had passed $52 billion by the end of 1977 and may have grown by another $7 billion-$8 billion in 1978. 36/ In several countries the resulting interest burden now absorbs one quarter to one third of convertible currency earnings. 37/

36/ In the first nine months of 1978, net liabilities to Western commercial banks - an important component of the over-all convertible currency debt - increased by $5.9 billion.

37/ Estimated interest payments in 1978 amounted to over 30 per cent of export earnings from developed market economies in the case of Bulgaria and Poland, 20-25 per cent in the German Democratic Republic and Hungary, 11-14 per cent in Czechoslovakia and Romania, and less than 10 per cent in the USSR.

The total debt service burden, including repayment obligations on maturing credits of earlier years, is substantially higher and is expected to rise rapidly in 1979-1981 as a significant volume of medium-term credits taken up in the middle 1970s falls due for repayment.

Asian centrally planned economies

Statistical information on the economic development of the Asian centrally planned economies continues to be fragmentary, and in some cases only broad trends can be discerned. The availble data as well as qualitative information suggest a generally satisfactory, though probably not outstanding, performance in China, where agricultural output increased in 1978 after several years of stagnation and industrial growth continued at near the recovery rate of the preceding year. A good agricultural performance also contributed to accelerated over-all growth in Mongolia. A very high rate of industrial expansion was reported in the Democratic People's Republic of Korea, but agricultural output appears to have lagged in that country. In Viet Nam, economic trends in general seem to have been quite unfavourable.

In China, efforts continued in 1978 to formulate a major medium-term development programme. An initial draft stressing a rapid development of heavy industry and implying very high capital import requirements was presented to the national parliament early in the year 38/ but was being revised in the direction of a lower over-all development pace and greater emphasis on agricultural modernization, light industry and economic infrastructure late in 1978 and early in 1979. 39/ The ultimate shape and dimensions of the programme, which has a first time horizon in 1985, has not yet been settled.

Agricultural production, which is still the key element of over-all economic trends in short and medium-term development of the Chinese economy, may have increased by approximately 3 per cent in 1978, based mainly on the first substantial increase in harvests since 1975. In spite of prolonged drought, which affected the fall harvest, grain output in 1978 reached a record level of 295 million tons, after having hovered around 285 million tons for the preceding three years. Output of industrial crops, such as oil seeds, sugar cane and beets, cotton, hemp, silk cocoons, cured tobacco and tea, was also above the 1977 levels, though increases generally were small and below plan targets. 40/ In spite of the improved grain harvest, grain imports - which had averaged about 5 million tons in 1971-1977 - rose to over 9 million tons in 1978. Multiyear contracts and looser agreements concluded with supplier countries indicate that a policy decision has

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38/ See World Economic Survey, 1977 (United Nations publication, Sales No. E.78.II.C.1), p. III-29 for some of the targets.

39/ See Xinhua, 24 February 1979, for a statement of some of the issues, and also The New York Times, 7 May 1979, p. D-1.

40/ Beijing Review, 12 January 1979.

been taken to maintain even higher levels of imports - about 10 million-13 million tons - for the next several years. 41/

In industry, output rose by more than 12 per cent in the January-November period, as against a 14 per cent increase in 1977. Absolute output levels for a number of basic inputs were reported for the first time in several years, as output increases exceeded the plan targets for the year. Steel output reached 31 million tons in 1978 and thus fully recovered from the 1976-1977 slump and exceeded the earlier (1975) peak by about 20 per cent. 42/ Coal output for the second year increased by 50 million tons and reached 600 million tons; this probably also represents more than full recovery from the damages caused by the 1976 earthquake at Tangshan which disrupted major capacities. Electric power production increased by 14 per cent, total output of crude petroleum by 11 per cent - which probably means a production level of 100 million tons - and that of natural gas by 10 per cent. 43/ Power and energy supplies none the less continue to constitute bottle-necks constraining economic growth. Plan targets were also fulfilled or exceeded in chemicals, machinery, building materials, textiles and certain other consumer goods.

In foreign trade, the resumption of growth expected after the policy discussions and announcements of the preceding year materialized in 1978. The value of imports rose by 50 per cent - after three years in which import value had remained at or below the levels reached in 1974 and import volume had declined sharply - and exports grew by 29 per cent. 44/ Most of the increase occurred in trade with IMF member countries, especially in imports from developed countries, which rose by almost 70 per cent.

41/ Multiyear agreements signed with Argentina, Australia and Canada alone provide for annual grain imports of 6.5 million tons through 1981, and purchases from the United States of a similar order of magnitude are expected. Grain import orders for 1979 delivery have already reached 10 million tons and are expected to rise to about 12 million-13 million tons. See Foreign Agriculture, 12 and 19 March 1979.

42/ A steel target of 60 million tons by 1985 in the initial version of the seven-year development plan is reportedly to be scaled down to 45 million-50 million tons in the revised version at present under discussion (Washington Post, 5 May 1979).

43/ Xinhua, 15 December 1978 and 1 January 1979.

44/ Xinhua, 14 January 1979. According to a Bank of China report, total foreign exchange earnings increased by 21 per cent (Beijing Review, 2 February 1979).

China: trade with market economies, 1971-1977

(Billions of dollars)

	1971	1972	1973	1974	1975	1976	1977	1978 a/
Exports (f.o.b.) . . .	2.0	2.5	4.1	5.3	5.8	6.0	6.8	8.8
Imports (c.i.f.) . . .	1.9	2.3	4.3	6.6	6.5	5.2	6.3	9.5

Source: International Monetary Fund, Direction of Trade, 1971-1977 (Washington, D.C., 1978), based on trade partner data.

a/ Preliminary estimate, based on full returns for most developed market economies and partial data (first two or three quarters of 1978) for most developing countries.

But trade with the European centrally planned economies also appears to have increased at an accelerated pace. Total exports of China probably reached a level of $10.2 billion in 1978, as against $8.0 billion in 1977, while total imports rose to $10.5 billion from $7.1 billion in the preceding year; the trade surplus of the past two years thus turned into a small deficit. For 1979 a further substantial expansion of trade appears likely on the basis of contracts already concluded for investment goods and industrial supplies and the anticipated increase in agricultural imports, but the medium-term outlook is bound to be somewhat clouded until the dimensions of the retrenchment in investment plans at present under discussion and in the contours of the over-all development strategy of China become more clear.

Table IV-1. Centrally planned economies of Eastern Europe and the USSR: growth of national income, a/ actual and planned, 1971-1980

(Percentage)

Country and group	Average annual rates			Increase over preceding year					
	1971-1975, actual	1976-1980, planned	1976-1978, actual	1975, actual	1976, actual	1977, actual	1978 Planned	1978 Actual	1979, planned
Albania	6.6	6.6-7.0	...	...	...	...	...	...	...
Bulgaria	7.8	7.7	6.3	8.8	6.5	6.3	6.8	6	7.0
Czechoslovakia	5.7	4.9-5.2	4.1	6.2	3.9	4.2	4.9	4	4.3
German Democratic Republic	5.4	5.0	4.3	4.9	3.6	5.2	5.2	4	4.3
Hungary	6.2	5.4-5.7	4.9	6.1	3.0	7.8	5	4	3.4
Poland	9.8	7.0-7.3	4.9	9.0	6.8	5.0	5.4	2.8	2.8
Romania	11.3	11.0 b/	9.0	9.8	10.5	8.8	11-11.5	7.6	8.8
Eastern Europe c/	7.9	6.8-7.1	5.5	7.5	6.0	6.0	6.5	4.5	4.9
USSR (NMP produced)	5.7	...	4.8 d/	4.5	5.9	4.5	...	...	...
(NMP utilized)	(5.1)	4.7	(4.3)	(3.9)	(5)	(4)	4	4	4.3
Eastern Europe c/ and the USSR	6.3	5.3-5.4	5.0	5.3	5.9	5.0	4.7	4.2	4.5

Source: Centre for Development Planning, Projections and Policies ofe the United Nations Secretariat, based on national statistical publications, plans and plan fulfilment reports.

a/ Net material product (NMP produced), or net value added of the material sectors of production, unless otherwise noted. Aggregated plan growth rates and the 1978 actual for Eastern Europe and the USSR have been jointly computed employing, in the case of the USSR, the growth rate for NMP utilized (the sum of domestic final uses). Bracketed figures on NMP utilized in other years are shown for comparison purposes only. Figures without decimals indicate rounded numbers as given in the national sources.

b/ Revised target; original target was 10-11 per cent.

c/ Not including Albania.

d/ Estimated.

Table IV-2. Centrally planned economies of Eastern Europe and the USSR: growth of industrial output, a/ actual and planned, 1971-1980

(Percentage)

Country and group	Average annual rates: 1971-1975, actual	Average annual rates: 1976-1980, planned	Average annual rates: 1976-1978, actual	Increase over preceding year: 1975, actual	Increase over preceding year: 1976, actual	Increase over preceding year: 1977, actual	Increase over preceding year: 1978 Planned	Increase over preceding year: 1978 Actual	Increase over preceding year: 1979, planned
Albania	8.7	7.1-7.6	...	4	4.1	6.6	8.5	6	10.1
Bulgaria		9.2	6.9	9.6	6.7	7.1	7.7	7	7.8
Czechoslovakia	6.7	5.7-6.0	5.4	7.1	5.5	5.6	5.1	5.0	4.5
German Democratic Republic	6.5	6.0	5.4	6.4	5.9	4.8	5.7	5.4	5.5
Hungary	6.4	5.9-6.2	5.4	4.6	4.6	6.6	5.5-6	5.2	4
Poland	10.4	8.2-8.5 b/	7.3	10.9	9.3	6.9	6.8 b/	5.8 b/	4.9 b/
Romania	12.9	11.5 c/	11.0	12.0	11.5	12.5	10.6	9.0	11.3
Eastern Europe d/	8.7	7.5-7.8	7.0	8.8	7.7	7.0	6.9	6.2	6.2
USSR	7.4	6.3	5.1	7.5	4.8	5.7	4.5	4.8	5.7
Eastern Europe d/ and USSR	7.8	6.6-6.8	5.6	7.9	5.6	6.1	5.2	5.2	5.8

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national statistical publications, plans and plan fulfilment reports.

a/ Gross value of output at constant prices, except in the case of the German Democratic Republic, where the data refer to the value of commodity production (i.e., gross output less work in progress).

b/ Value of output sold.

c/ Revised target; original target was 10.1-11.2.

d/ Not including Albania.

Table IV-3. Centrally planned economies of Eastern Europe and the USSR: change of labour productivity a/ in industry, 1971-1980

(Percentage)

Country and group	Average annual rates			Increase over preceding year					
	1971-1975, actual	1976-1980, planned	1976-1978, actual	1975, actual	1976, actual	1977, actual	1978 Planned	1978 Actual	1979, planned
Albania	3.9	2.8-3.2	...	...	...	...	3.6	...	9
Bulgaria	7.0	7.7 b/	7.0	8.1	6.5	8.1	...	6.4	...
Czechoslovakia c/	6.3	...	4.9	6.8	5.7	4.7	4.0	4.2	3.8
German Democratic Republic	5.2	5.4	4.9	5.3	5.4	4.4	5 d/	5	4.6 d/
Hungary	6.3	6.2	5.8	4.9	5.4	6.7	...	5.3	...
Poland e/	7.5	7.7	6.8	9.3	8.8	5.7	6.7	5.8	5.3
Romania c/	6.4 f/	9.2 f/	8.1	7.2	8.4	8.7	9.0 g/	7.1	10.2
USSR	6.0	5.6	3.6	5.9	3.3	4.0	3.8	3.6	4.7

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national staistical reports.

a/ Output per employee, except where otherwise noted.

b/ Over-all labour productivity (net material product per work year).

c/ Mutual workers only.

d/ Industrial ministries only:

e/ Socialist sector only.

f/ Revised tartet (originally: 8.4-9.0).

g/ Republican industry only only (i.e., excluding local industry).

Table IV-4. Centrally planned economies of Eastern Europe and the USSR: growth of gross agricultural output, actual and planned, 1971-1980

(Percentage)

Country and group	Average annual rates: 1971-1975 Average a/	1971-1975 End-years b/	1976-1980, planned a/	1976-1978, planned a/	Increase over preceding year: 1975, actual b/	1976, actual	1977, actual	1978 Planned	1978 Actual	1979, planned
Albania	5.9	...	6.6-7.1	...	7	9.1	...	28	...	30
Bulgaria	2.2	2.9	3.7	0.8	7.5	4.1	-6.3	5.0	5	7.0
Czechoslovakia	2.9	2.6	2.6-2.8	2.6	-1.0	-2.4	9.1	3.4	1.5	3.8
German Democratic Republic	2.1	2.7	3.0 c/	1.5	-3.4	-4.6	7.3	3.5 d/	2.1 c/	1.3 d
Hungary	3.5	4.8	3.2-3.4	3.1	3.7	-2.7	10.3	2	2	3-3.5
Poland	3.2	3.7	3.0-3.5 b/	1.5	-2.1	-1.1	1.4	6.1	4.2	3.9-4.8
Romania	4.7	6.4	6.9-9.0 e/	6.0	3.1	17.3	-0.9	6.9-16.1	2.4	5.1-5.6
Eastern Europe f/	3.1	3.8	3.3-3.9	2.5	-0.2	1.2	3.1	...	3.0	4.1
USSR	2.5	1.6	3.1-3.3	3.8	-4.2	4.7	3.0	...	3.6	5.2

Source: Centre for Development Planning, Projects and Policies of the United Nations Secretariat, based on national statistical publications, Statischeskii ezhegodnik stran-chlenov SEV 1977 (1977), plans and plan fulfilment reports.

a/ Change in the five-year average output from the average of the preceding five years, expressed as annual compound rate.f

b/ Average annual compound rate between terminal years.

c/ Estimated.

d/ Production and services of agricultural sector and food industry combined.

e/ Revised target; original target was 5.1-7.6 per cent.

f/ Not including Albania.

Table IV-5. Centrally planned economies of Eastern Europe and the USSR: changes in gross fixed investment, 1971-1980

(Percentage)

Country and group	Average annual rates: 1971-1975, actual a/	Average annual rates: 1976-1980, planned b/	Average annual rates: 1976-1978, actual	Increase over preceding year: 1975, actual	1976, actual	1977, actual	1978 Planned	1978 Actual	1979, planned	1980, planned
Albania	8.4 b/	6.2-6.6	...	...	13.7 c/	...	17.8	...	12	...
Bulgaria	8.6	7.1	0.2	17.3	0.6	5.3	5.0	-5.1	13.4	4.9
Czechoslovakia	8.2	6.3-6.6	5.5	8.3	3.6	6.3	5.6	6.6	2.4	...
German Democratic Republic	4.1	5.8	6.0	6.1	8.4	6.8	2.1	3	5.6	...
Hungary	7.1	4.6-4.7 d/	5.5	13.2	-0.1	13.0	0	4	0	...
Poland	18.4	7.4 a/	2.1	14.2	2.2	4.3	-1.5	-0.2	-10	...
Romania	11.5	12.9	12.0	15.1	8.2	11.7	16.8	16.2	9.1	...
Eastern Europe e/	10.8	...	5.5	12.4	4.2	7.4	4.8	5.0	1.5	...
USSR	7.0	4.7 c/	4.5	8.6	4.5	3.7	3.4	5.2	2.7	...
Eastern Europe e/ and USSR	8.2	...	4.8	9.8	4.4	4.9	3.9	5.1	2.3	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national statistical publications, plans and plan fulfilment reports.

a/ Average annual compound rate between terminal years.

b/ Change over preceding five-year period, expressed as an average annual rate.

c/ State investment only.

d/ Socialist sector only.

e/ Not including Albania. Regional growth rates are rough estimates obtained with the use of each country's approximate share in aggregate net accumulation (net fixed investment plus inventory change) of the region in 1975 as base-year weights.

Table IV-6. Centrally planned economies of Eastern Europe and the USSR: selected indicators of growth of income and consumption, 1971-1980

(Percentage)

Country and indicator	Average annual rates: 1971-1975, actual	Average annual rates: 1976-1980, planned	Average annual rates: 1976-1978, actual	Increase over preceding year: 1975, actual	Increase over preceding year: 1976, actual	Increase over preceding year: 1977, actual	Increase over preceding year: 1978 Planned	Increase over preceding year: 1978 Actual	Increase over preceding year: 1979, planned
Bulgaria									
Personal income _per capita_ (real)	6.1	3.7	...	5.4	4.6	0.5	3.6	...	3.2
Average wage (nominal)	3.2	...	2.1	3.1	1.1	2.0	...	3.1	...
Retail sales (real) a/	7.8	7.0	4.8	7.8	7.3	3.1	4.4 b/	4.0	4.1
Total consumption (real)	7.2	...	5.2	7.7	6.0	4.0	5.0	5.5 c/	4.6
Czechoslovakia									
Average wage (real) a/	3.5	2.5-2.8	3.0 b/	2.6	1.8	1.9	...	3 b/	2.7 b/
Retail sales (real)	5.5	...	4.1 b/	2.8	2.0	1.4	3.9	4.6 b/	2.8 b/
Total consumption (real)	5.3	...	...	2.9	3.3	3.6	...	...	...
German Democratic Republic									
Personal income _per capita_ (real)	5.4	3.9-4.2	...	4.0	4.6	5.3	...	...	...
Average wage (nominal) a/	3.5	...	...	3.4	3.5	2.9	...	...	...
Retail sales (nominal)	5.0	4.0	4.2	3.5	4.6	4.4	4	3.5	4.0
Total consumption (real)	5.3	4.1	...	4.0	4.4	5.2	...	...	...
Hungary									
Personal income _per capita_ (real)	4.6	3.4-3.7	2.9	4.4	0.8	4.5	3-3.2	3.1-3.5	2
Average wage (real)	3.3	2.7-3.0	2.3	3.8	0.1	3.7	2.8-3	3	1
Retail sales (real)	6.2	5.1-5.4	3.8	5.4	1.4	6.2	4	3.9	3-4
Total consumption (real)	5.1	...	3.1	4.7	2.1	4.2	...	3 d/	2.5-3 d/
Poland									
Average wage (real) a/	7.2	3.0-3.4	1.2	8.5	3.9	2.3	1.8	-2.6 d/	1.5-2.0
Retail sales (nominal) e/	12.7	7.3-7.7	11.2	15.7	12.9	13.2	12 f/	7.7	...
Total consumption (real)	8.7	...	...	11.1	8.8	6.8	3.4	...	3.0
Romania									
Personal income _per capita_ (real)	6.8	5.2-6.0 g/	6.7	5.8	8.8	3.5	6.8 g/	7.8 g/	6.4 g/
Average wage (real)	3.7	5.8	6.8	6.9	6.2	5.8	7.5	8.3	...
Retail sales a/ e/ (real)	8.2	8.7	8.0	7.8	8.6	6.4	10.0 b/	9.1	8.3 b/
USSR									
Personal income _per capita_ (real)	4.4	3.9	3.4	4.5	3.7	3.5	3	3	3.3
Average wage (nominal)	3.6	3.2	3.2	3.3	3.8	2.5	2.2	3.2	1.8
Retail sales (nominal)	6.3	5.2	4.4	7.0	4.6	4.8	3.9	3.9	4.8
Total consumption (nominal) . . .	5.8	5.1	...	6.4	5.0	4.9	...	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national statistical publications, plans and plan fulfilment reports.

a/ Socialist sector only.

b/ Nominal.

c/ Estimated from _per capita_ figures.

d/ Estimated from components.

e/ Goods only.

f/ Goods and services.

g/ Estimated from aggregate figures, adjusting for population growth.

Table IV-7. Centrally planned economies of Eastern Europe and the USSR: foreign trade, by direction, 1971-1978

(Value in billions of current dollars; growth rates in percentage) a/

	Exports						Imports					
		Growth rates						Growth rates				
	Value, 1978	1971-1975	1975	1976	1977	1978	Value, 1978	1971-1975	1975	1976	1977	1978
Eastern Europe, b/ to or from:												
World	60.8	14.8	16.2	11.4	11.6	8.9	67.9	17.3	17.0	10.9	10.4	8.8
Centrally planned economies .	38.6	14.0	24.4	11.8	13.1	9.5	40.4	14.4	28.6	11.9	16.3	9.1
Developed market economies .	15.7	15.2	-2.2	12.1	5.1	6.5	22.2	22.9	5.3	8.2	-0.2	7.8
Developing countries	6.5	20.1	26.5	6.6	20.5	10.5	5.3	18.1	-0.2	17.0	13.7	10.5
USSR, to or from:												
World	52.3	15.8	15.9	16.6	18.7	7.2	50.7	20.4	41.6	7.7	4.7	14.8
Centrally planned economies .	26.8	13.7	33.5	12.0	15.5	10.9	25.6	13.7	30.1	8.0	13.6	21.2
Developed market economies .	14.4	26.3	-0.2	26.5	13.2	-1.0	17.7	30.5	56.3	11.8	-7.2	10.7
Developing countries	11.3	13.0	3.2	14.4	36.9	10.1	7.4	22.6	43.4	-2.7	11.3	5.0

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national statistical sources.

a/ Growth rates were computed from national currency data aggregated in terms of transferable roubles and thus do not reflect the dollar devaluations. Both exports and imports are expressed f.o.b., except for Hungarian imports which are shown c.i.f. in the national returns. Data for 1978 are preliminary estimates.

b/ "Eastern Europe" refers to the Eastern European countries members of CMEA (Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland and Romania). Trade partner grouping follows the classification employed by the Statistical Office of the United Nations (cf., United Nations Standard Country Code (United Nations publication, Sales No. E.70.XVII.13)), which includes Turkey and Cuba among developing countries and Yugoslavia among the developed market economies.

Table IV-8. Centrally planned economies of Eastern Europe and USSR: growth of foreign trade value, by country group, 1971-1980 a/

(Percentage)

Country and partner group	Average annual rate				Change from preceding year													
	1971-1975, actual		1976-1980, planned		1975, actual		1976, actual		1977, actual		1978				1979, planned	
											Planned		Actual			
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Bulgaria																
Total	14.1	19.6	9.9		22.1	24.8	14.5	3.8	15.8	11.5	11.5		11.1		9	
Centrally planned economies	14.0	18.3	...	...	28.3	30.4	16.6	10.9	15.1	16.5	...	...	...	...	...	...
Developed market economies	5.8	24.5	...	...	-5.0	27.5	23.7	-17.0	8.9	-7.1	...	...	...	...	...	...
Developing economies	27.0	17.2	...	...	16.5	-22.2	-5.4	9.8	28.7	11.0	...	...	...	...	...	...
Czechoslovakia																
Total	11.3	13.8	6.2-6.5		13.2	15.3	11.8	10.4	11.7	12.9	7.9	6.5	9.6	7.7	5.3	4.8
Centrally planned economies	11.7	14.0	...	...	21.8	25.7	16.7	11.3	10.4	14.2	4.0 b/	8.8 b/	10.2	10.6	4.4 b/	6.9 b/
Developed market economies	10.6	14.3	...	...	-5.4	2.5	3.4	9.8	12.8	5.7	13.3 c/	3.3 c/	5.5	7.0	6.9 c/	1.2 c/
Developing economies	10.2	9.4	...	...	12.3	-11.2	-2.8	4.4	19.9	32.6			15.0	-17.5		
German Democratic Republic																
Total	12.8	14.0	...	...	15.3	17.0	12.6	16.9	5.8	8.6	11		10.4	...	9.8	
Centrally planned economies	12.5	12.9	8.4 b/		22.9	30.6	9.2	11.5	10.3	17.3	...	...	10.3	...	...	...
Developed market economies	13.7	16.6	...	...	-3.4	1.5	20.7	26.8	-7.3	-8.5	...	...	6	...	...	...
Developing economies	11.8	14.6	...	...	26.4	-14.9	19.9	24.5	14.1	17.1	...	...	32	...	...	...
Hungary																
Total	13.9	15.9	7.5-8.2	5.9-6.5	11.2	20.6	5.1	-3.1	16.6	15.2	11.0	7.0	0.9	12.6	7	1-2
Centrally planned economies	15.8	16.1	7.3-7.7 b/	5.7-6.2 b/	20.0	40.9	-0.7	-4.8	16.9	13.4	10 b/	10 b/	-1.5	11.1	12	
Developed market economies	9.2	15.7	9.9-10.5 c/	6.3-7.0 c/	-8.7	-6.8	9.5	-3.2	16.5	18.8	12-13 c/	3-5 c/	3.5	18.1	10-11	0
Developing economies	14.3	14.8			11.8	9.1	6.9	6.6	13.4	18.0			6.0	-0.6		
Poland																
Total	19.2	23.6	11.8	4.7	23.7	19.6	7.1	10.6	11.3	5.4	10	5	9.8	4.7	9.1	5.1
Centrally planned economies	17.5	13.8	...	...	32.8	23.7	7.2	13.4	11.8	16.9	8	9	10.8	9.4	...	...
Developed market economies	21.8	39.8	...	...	9.0	16.0	8.0	9.8	9.6	-6.1	12	2	9.3	-2.1	...	...
Developing economies	21.9	20.4	...	...	32.4	21.6	3.3	-5.4	15.1	19.4			4.3	20.2	...	...
Romania																
Total	19.0	17.7	12-13 d/	10-11 d/	9.6	3.8	14.9	14.1	14.4	15.1	19.1		5.5	14.7	21.2	
Centrally planned economies	13.4	12.5	...	...	16.9	19.4	13.9	19.7	21.6	21.8	...	...	...	...	...	...
Developed market economies	20.4	19.5	...	...	-9.3	-9.7	15.4	-3.0	-0.4	15.9	...	...	...	...	...	...
Developing economies	37.1	35.8	...	...	48.2	14.8	16.2	51.7	26.8	-1.9	...	...	...	...	...	...
USSR																
Total	15.8	20.4	6.0		15.9	41.6	16.6	7.7	18.7	4.7	10		7.2	14.8	...	
Centrally planned economies	13.7	13.7	...	...	33.4	30.1	12.0	8.0	15.5	13.6	...	...	10.9	21.2	...	...
Developed market economies	23.1	30.5	...	...	-0.2	56.3	26.5	11.8	13.2	-7.2	...	...	-1.0	10.7	...	...
Developing economies	13.0	22.5	...	...	3.2	43.4	14.4	-2.7	37.0	11.3	...	...	10.1	5.0	...	...

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national statistics, plan and plan fulfilment reports.

a/ Trade partner grouping, unless otherwise specified, follows the classification employed by the Statistical Office of the United Nations (cf., United Nations Standard Country Code (United Nations publication, Sales No. E.70.XVII.13)). Growth rates were computed directly from the national currency data and thus do not reflect the dollar devaluations. Both exports and imports are expressed f.o.b., except for Hungarian imports which are shown c.i.f. in national returns.

b/ Including Yugoslavia and Cuba.

c/ "Capitalist economies", i.e., economic classes I and II of the classification system referred to in foot-note a/, but excluding Yugoslavia and Cuba.

d/ Growth of the five-year average for the period shown over the average of the preceding five years, expressed as a compound annual rate.