E/1978/70/Rev.1
ST/ESA/82

WORLD ECONOMIC SURVEY, 1977

UNITED NATIONS

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Department of International Economic and Social Affairs

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New York, 1978

NOTE

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PREFACE

Each year, in accordance with General Assembly resolution 118 (II), the Economic and Social Council holds a general discussion on international economic and social policy at its second regular session. 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". *The World Economic Survey, 1977* has been prepared to assist the Council in its deliberations at the second regular session in July 1978.

The *Survey* consists of an introduction and three chapters. The introduction provides an overview of salient developments in the world economy in 1977 and the outlook for 1978. It draws attention in particular to policy needs for improving the tempo of world production and trade. The three chapters that follow examine in greater detail the course of production and trade and related variables in, respectively, 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 1978.

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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/
EEC	European Economic Community
EFTA	European Free Trade Area
FAO	Food and Agriculture Organization of the United Nations
GATT	General Agreement on Tariffs and Trade
IBEC	International Bank for Economic Co-operation
ICO	International Coffee Organization
IIB	International Investment Bank
IMF	International Monetary Fund
ISIC	International Standard Industrial Classification
LINK	International Research Group of Econometric Model Builders
MERM	Multilateral exchange rate model

MFA	Multi-Fibre Agreement
MTN	Multilateral Trade Negotiations
NIESR	National Institute for Economic and Social Research
NMP	net material product
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OMA	orderly marketing agreements
OPEC	Organization of Petroleum Exporting Countries
SDR	special drawing rights
TR	transferable roubles
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 statistical convenience and does not necessarily express a judgement about the stage reached by a particular country or area in the development process.

INTRODUCTION

Disquieting international trends

There is a widespread uncertainty and unease about prospects for the world economy in the next several months and even over a longer time span. Though domestic income and output in 1977 and early 1978 have been continuing to increase in most countries, the pace has recently been moderating and it shows no signs of quickening in the immediate future. For most countries - developing as well as developed - prospects are seen to depend quite heavily on events external to the domestic economy. For many developing countries, the expectation of a continued slackness in the pace of growth in world trade is itself sufficient reason, in the face of a rising debt-service burden, to pursue a defensive balance-of-payments policy. In their trade with the developed market economies, the developed centrally planned economies have similarly been restricting imports in view of an overhang of external debt. Among the developed market economies, the balance-of-payments adjustment process has been working poorly, impeding the expansion of economic activity. It is primarily on an acceleration of productive investment activity that most of these countries are counting to re-establish a steady rate of growth; but the slow expansion of both domestic and external demand, coupled with the external uncertainties generated by exchange instability and protectionist tendencies, have discouraged new investment.

For the developing countries as a group, the gathering disquiet about the world economic situation comes after a year of improved performance. The domestic production of these countries increased by about 6.3 per cent in 1977 (see tables 1, 2 and 3), more than sustaining the growth realized in 1976. For the oil-exporting countries, the expansion was some 9.2 per cent. Among the non-oil-exporting countries, the rate was some 5 per cent; while this marked an advance over the performance in 1975 and 1976, it was still below the rate realized in the first few years of the 1970s. It is questionable, moreover, whether the improved performance can be sustained in 1978. For many countries, an important ingredient in the recent gains was the modest recovery of export markets in 1976 and early 1977; better export prices and increased export incomes helped to stimulate domestic economies. But with the sluggishness of activity persisting in the developed market economies, further export-led growth cannot be expected in the current year. Moreover, another year of restraint on imports will tell increasingly on domestic growth.

For a number of developing countries, the good harvests experienced in 1976 were again repeated in 1977, helping to sustain their economic growth. However, for the developing countries as a whole, food production increased by only 1.4 per cent in 1977, well below the average annual rate of 2.7 per cent recorded over the years since 1970 (see table 2). Per capita production, in fact, increased only in Asia. A serious food shortage was again experienced in the Sahelian zone of Africa.

The recovery experienced by major developed market economies in 1976 weakened appreciably in 1977. Real gross domestic product of the developed market economies increased by 3.7 per cent in 1977 as against some 5.2 per cent in 1976 (see table 1). The United States of America, though leading other developed market economies in growth performance, experienced a decline in pace from 6.1 per cent in 1976 to 4.9 per cent in 1977. Some other countries, including France, the Federal Republic of Germany and Italy, actually experienced mini-recessions in the course of 1977. For the developed market economies as a group, the present prospects are that the slackened pace will continue in 1978. For most countries, no alleviation in the current high levels of unemployment can accordingly be expected.

The centrally planned economies of Eastern Europe and the Union of Soviet Socialist Republics similarly recorded a lowering in the rate of economic growth during 1977 when it declined to 4.3 per cent from 5.5 per cent in 1976. Although this was due mainly to the performance of agriculture, the rising capital costs of raw material production and of infrastructural development were a longer-term factor contributing to a lower growth rate.

Responding to the deceleration in growth of income and output in the developed economies, the rate of expansion in the volume of world trade declined sharply from 11 per cent in 1976 to only 4 per cent in 1977 (see table 4). Most groups of countries shared in the slowing down in the volume of trade. Among the developing countries, the export volume of the non-oil-exporting countries rose by only 3.6 per cent in 1977 compared with 13 per cent in 1976; and the volume of exports from the oil-exporting countries did not increase at all in 1977. Similarly, the exports of the developed market economies grew by no more than 4.6 per cent in 1977 as against 11 per cent in 1976. Only the centrally planned economies of Eastern Europe and the Soviet Union recorded some acceleration over the preceding year, with their combined exports increasing by 9 per cent in 1977.

The stagnation in volume of exports from the oil-exporting countries reflected the slackening of world demand for petroleum during 1977 and the high stocks with which industrial countries commenced the year. There was, moreover, a sizable increase during the year in crude oil output of some of the oil-importing countries. This came partly as a result of conscious efforts to reduce dependence on imported supplies. However, while supplies of oil are currently plentiful, it should not be forgotten that a number of forecasts project a shortfall in the world supply of oil some time in the mid 1980s.

Persisting payments imbalances and adjustment difficulties

An important element in the slowdown of growth in world trade has been the deflationary bias introduced into world economic activity by the poor functioning of the process of mutual adjustment in policies which countries must follow to lessen temporary balance-of-payments surpluses or deficits. While Western European countries which had major balance-of-payments deficits in 1975 and 1976 have generally been successful in reducing their deficits, the imbalances of the major surplus countries have persisted and even increased. Thus the major deficit countries reduced their combined current account deficit in 1977 by over $11 billion while the major surplus countries actually enlarged their positive current account by about $5 billion (see table 5). This has been indicative of a clear asymmetry in the adjustment process. While slow domestic growth and exchange rate changes in the major deficit countries have dampened down their demand for imports, there has not been a comparable, and offsetting, expansion in external demand generated by the surplus countries. Indeed, in the absence of a more vigorous demand for their exports, the major deficit countries have necessarily sought to restore equilibrium at a lower level of imports and domestic economic activity.

Among the larger developed market economies, only the United States of America has been exerting a substantial expansionary influence on world trade, the continuing growth in domestic economic activity generating a strong demand for imports. The volume of imports into the country actually increased by 12.1 per cent in 1977. However, partly because economic activity in the United States of America has been more buoyant than in its major trading partners and partly because of a surge in oil imports, the country has experienced a rapidly increasing deficit in its balance of payments on current account. In fact, the current account moved from a surplus of $7.9 billion in 1976 to a deficit of $12.7 billion in 1977. Indications are that the deficit has persisted in the first few months of 1978 and that, for the year as a whole, it could be of an order of magnitude comparable to last year's. Because of the outflow of dollars to finance the accumulating deficit and the lack of prospects for any immediate reversal of the deficit, not only has the dollar exchange rate been depreciating but doubts about the stability of the exchange rate régime in the coming months have persisted.

A better functioning of the balance-of-payments adjustment process calls for closer co-ordination of demand management policies among the developed market economies. Part of the difficulty derives from differences in the valuations which countries place upon price stability as against greater domestic output and employment, and from differences in assessment of the economic consequences of more expansionary policies. In part also, there has been an apparent reluctance among major surplus countries - notably the Federal Republic of Germany and Japan - to loosen their adherence to long-standing policies of economic management which have consistently favoured export-led growth, and to assign a larger role to policies supporting production for the domestic market and the inflow of imports.

In addition to these differences in viewpoint among the developed market economies, concerted action to restore the pace of economic growth is restrained by shared fears that vigorous measures might lead to a renewed acceleration of inflation. Though rates of inflation in these countries were generally brought down substantially in 1976 and 1977 from the high levels reached in 1974 and 1975, they remain considerably above most post-war experience. In 1977, consumer prices in the developed market economies advanced, on the average, by over 9 per cent compared with an annual average increase of some 4 per cent between 1960 and 1973; and there have remained considerable differences among individual countries in these rates of inflation. Through the interaction of inflationary expectations and cost pressures, inflationary forces have clearly continued in motion and there has certainly been no lessening of the need to construct a more effective range of anti-inflationary policies.

Failure of the developed market economies to execute concerted expansionary policies, however, carries other and perhaps greater dangers for the world economy. In many of these countries, the current hope is that an increase in investment expenditure will provide the main force propelling the economy forwards to a higher level of activity; and in some countries - particularly countries with large recent payments deficits - this is supplemented by a desire to see the export sector also take a leading role in accelerating growth. However, the realization of an investment-led acceleration in growth is - especially in countries with relatively large foreign trade sectors - closely linked with the perceived prospects for the world economy; and for export-led growth, the link with external trends is still more direct. If the present balance-of-payments maladjustments persist and if concerted, expansionary policies are not successfully implemented, the disquieting features of the current international scene - the sluggishness of trade, the exchange instability, the drift towards protectionism - are likely to persist. If, for example, high levels of unemployment and capacity underutilization continue, it is unlikely that protectionist tendencies can be arrested; but the spread of protectionist measures itself diminishes the prospects for a restoration of higher rates of economic growth. In such circumstances, the more favourable conditions needed to stimulate investment or exports may not materialize.

Cautious import policies of developing countries

Developing countries have a large stake in the outcome of discussions among the developed market economies regarding their economic policies. While developing countries as a whole experienced an improvement in the performance of domestic output during 1977 and while many also strengthened their balance-of-payments positions, they are currently obliged to adopt a cautious stance in their policies because of uncertainties about the world economic outlook.

For the developing countries as a group, the value of export earnings rose by some 15 per cent in 1977 mainly because the average level of commodity prices over the year was considerably higher than in 1976 (see table 6). Earnings of the oil-exporting countries rose more slowly as petroleum prices increased more modestly and the volume of oil imports into the developed market economies stagnated. It was for the non-oil developing countries that the average level of prices was considerably higher, being some 17 per cent greater than in 1976. However, it should be observed that the upward movement of commodity prices from the low levels struck in 1975 broke in the second quarter of 1977. By the third quarter of 1977, prices had fallen back to the level recorded at the beginning of the year. They have since shown no signs of resuming an upward movement and there are currently no grounds for supposing that export earnings in 1978 will receive any stimulus from price increases comparable to that experienced in 1977.

Increased export earnings in 1977 were generally accompanied by some improvement in the balance of payments on current account. The non-oil-exporting countries, in fact, increased their reserves by about $9 billion in 1977 (see table 6); in addition, they reduced their net drawings on International Monetary Fund (IMF) credit facilities by some SDR 300 million. Thus by the end of 1977 the short-term financial position of these countries as a group was significantly better than it had been at the end of 1976.

However, the improvement was achieved at the cost of a very modest increase in the volume of imports. In fact, imports into the non-oil-exporting countries rose in 1977 by less than 3 per cent, a very small increase that came after an even smaller gain in 1976 and an actual decline in 1975.

It is true, of course, that not all non-oil-exporting countries experienced an improvement in their balance of payments in 1977. In a number of countries, the sluggishness of imports reflected the continuation or worsening of payments difficulties. A number of countries - particularly among the low-income, resource-poor countries - suffered from a continuing weakness in export performance or from worsening terms of trade. Among some other, higher-income countries that are of small economic size and heavily dependent on imported energy, adjustment to changes in relative prices has not been completed and import restrictions have remained severe.

But the more common experience among countries was that they brought about an improvement in their balance-of-payments position while, at the same time, restraining the growth in imports. For some countries, both were the outcome of measures taken to combat excessive price inflation. The more general explanation, however, was a cautiousness of policy in regard to the balance of payments that was bred both by uncertainty about the prospects for export earnings and by concern to protect the capacity to borrow abroad. Over recent years, many developing countries had to resort to substantial external borrowing to safeguard the flow of imports in the face of a downturn in export earnings or a sharply adverse shift in the terms of trade. The ability to do so, however, depends on evidence of the capacity to service additional external debt. As the debt-service burden of numerous countries has increased quite substantially in recent years, it is small wonder that, in a period of uncertainty about prospective export earnings, precautionary measures have been taken to increase liquidity and to protect the capacity to borrow.

The changing debt problem

For developing countries as a group, total debt-service payments amounted to some $34.5 billion in 1977 (see table I-13). Leaving aside the oil-exporting countries, the payments were of the order of $27 billion. These were equal to about one fifth of export earnings in the same year and substantially in excess of the combined deficit in the trade balance of these countries. With payments of such magnitude, the provision of financial resources to accommodate external debt payments has become a major consideration in the management of the balance of payments. The problem has come to the fore in recent years because of a rapid increase in the volume of debt-service payments. This has been brought on not only by continued borrowing but also by the ending of the grace period on many loans contracted during the 1960s and by the changing composition of borrowings in the 1970s.

For some groups of countries, there has not been such an intensification or worsening of the problem of servicing external debt. This is true not only of most oil-exporting countries but also of low income non-oil-exporting countries. In the latter group of countries, although total outstanding debt rose from $21 billion in 1973 to $35 billion in 1977, debt-service payments increased by not more than $1.2 billion over the same period. A gradual shifting of concessional aid to these countries helped to moderate this increase. Still, at a level of $2.6 billion or some 14 per cent of export earnings in 1977, debt-service payments are substantial for these countries; and a retroactive adjustment of the terms of official debt - as agreed in principle at a special session of the United Nations Conference on Trade and Development's Trade and Development

Board held in March 1978 - will be important in enabling these countries to increase their imports and enlarge their development programmes. 1/

Among the oil-importing developing countries with per capita incomes of above \$265 (in 1975) concern about the debt-service burden has recently been accentuated by its high rate of growth. The total external debt of this group increased by nearly 76 per cent between 1974 and 1977 while debt-service payments practically doubled.

In recent years, the problem of debt management has also acquired a different character among these countries because of the greatly enhanced role of private capital markets as a source of international finance. In the past three years, Euro-currency borrowing and the purchase of foreign and international bonds accounted for about half of the total financial resources flowing to the developing countries. As a consequence, by the end of 1977 about one third of their public and publicly guaranteed debt was owed to commercial banks and about one sixth was owed to private, non-bank creditors.

While the recourse to private capital markets has assisted many countries in overcoming recent balance-of-payments problems, reliance on this source of finance also brings certain difficulties. The availability of private funds fluctuates with conditions in international financial markets and with the credit-worthiness of borrowers as perceived by these markets. Such perception is heavily influenced by the immediate export outlook facing the borrowing country and by its capacity to service additional debt in the short term. Thus the flow of such funds to finance balance-of-payments deficits is neither stable nor assured. To sustain and expand imports in a period of uncertain export prospects, there is need for a larger and more assured flow of payments finance which can be made available on a longer-term repayment basis.

Short-term outlook for the world economy

There are little or no grounds for expecting any restoration in the growth of export earnings of developing countries in the course of 1978. With the volume of exports expanding only modestly in response to the hesitant performance of developed market economies, with some deterioration in the terms of trade and with increased debt-service payments, the balance of payments on current account of non-oil-exporting countries is expected to worsen. However, in view of the need to contain increases in external indebtedness within limits consistent with the longer-term capacity to service the debt, deficits are likely to be restricted at the expense of increases in imports. Thus, for the developing countries as a whole, the expectation is that there is likely to be some deceleration in the expansion of total production in 1978 owing to the constraints imposed by a slow growth in imports.

For the developed market economies as a whole, gross domestic product in 1978 appears likely to increase at much the same rate as in 1977, falling somewhere

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1/ "Report of the Trade and Development Board on the third (ministerial) part of its ninth special session" (TD/B/699 and TD/B/699/Add.1); reproduced in Official Records of the General Assembly, Thirty-third Session, Supplement No. 15 (A/33/15), vol. II.

between 3.5 and 4 per cent. In a number of countries, tax cuts and some expenditure measures introduced in 1977 are likely to stimulate consumption expenditure and to raise economic activity in the early months of 1978. There is some doubt, however, whether the expansion can be continued at the same rate into the second half of 1978 in the absence of additional stimuli from fiscal policy. In addition, the general prospect for more vigorous growth is marred by the absence of indications of any early acceleration in business investment.

The major disequilibria in the external balances of developed market economies show signs of persisting through 1978. Rates of domestic economic growth in the United States of America and Western European countries are expected to converge somewhat in 1978 - with growth slowing down in the United Staes of America and increasing in Western Europe - and this should assist the balance-of-payments adjustment process. But the deficit in the current account of the United States of America and the combined surplus of the major surplus countries are nevertheless currently projected to remain substantial. Taken together with the continuation of differences among countries in rates of increase in domestic prices, this suggests further exchange rate instability, a condition with adverse consequences - particularly in the foreign trade-oriented countries - for business confidence and investment decisions.

The developed centrally planned economies are similarly likely to restrain their imports from the developed market economies in order to improve their external balances and to contain their external indebtedness. At the same time, their plans suggest that they will seek to accelerate the growth in their exports. Economic policy in these countries for the rest of the decade, in fact, will concentrate on improving internal and external balance through a general slowdown in the growth of aggregate demand.

Longer-term considerations

There are forces at work in the current international economic situation which, if not soon reversed by positive action, are likely to exercise a cumulatively disruptive effect on world production and trade. For the non-oil developing countries, delay in the recovery of real export earnings can only aggravate debt-service problems, confirm the necessity of defensive balance-of-payments policies and assure continuation of the slow growth in volume of imports; and these factors are bound to place an increasing constraint on domestic investment and the growth of output. In the developed market economies, a slackened pace of economic growth means the persistence of high and even rising levels of unemployment, intensifying social tensions and undermining resistance to protectionist demands. Continuation of an ineffectively functioning balance-of-payments adjustment process together with exchange-rate instability must further diminish confidence in the viability of the international economy and discourage business investment.

There is an urgent need for more affirmative action by Governments to counter the prevailing mood of uncertainty and to reconstruct confidence in prospects for world production and trade. The concerted implementation of expansionary demand management policies by the developed market economies is one requirement. But it is not sufficient. The restoration of confidence in a renewal of rapid and sustainable growth in world production and trade also demands firm evidence of the intent to introduce more basic and lasting changes into the international economic order.

The current situation has again demonstrated the need for more effective modalities and greater resources to support an expanding flow of imports into the developing countries. Commodity stabilization as proposed under the Integrated Programme for Commodities and easier access to official payments finance would lessen some of the short-term financing difficulties that countries are currently experiencing. But the balance-of-payments deficits of developing countries are also, in large part, of a long-term structural character and the kinds of payments finance available to developing countries do not sufficiently reflect the long-term nature of the problem. For the many low-income countries that are unable to borrow on private capital markets, the constraint is particularly acute: an increased flow of official development assistance is essential for these countries if they are to raise their imports to more adequate levels and to finance their deficits.

Confidence in the prospects for an expanding world economy, however, rests even more fundamentally on the outlook for a flourishing international trade in both manufactures and agricultural products. A readiness to eschew resort to additional protectionist measures would be partial evidence of such confidence. Still more convincing woule be the willingness to pursue policies supporting the dynamic adaptation of productive structures to a growing volume of competing imports. In the same way, concerted international efforts to promote a long-term balance between demand and supply in such key commodities as food and energy would also strengthen confidence in the longer-term prospects for the world economy. 2/

2/ For a more detailed exposition of the several policy issues referred to in this section, see the note by the Secretariat submitted to the Committee Established under General Assembly Resolution 32/174, entitled "Some factors affecting the world economy", (A/AC.191/4), for consideration in connexion with its agenda item entitled "Review and assessment of principal factors affecting the world economy and, in particular, the economies of the developing countries with special reference to the relationships between the economies of the developing and of the developed countries, with particular regard to the development problems of the developing countries".

Table 1. World production: annual growth rates, by country group, 1971-1977

(Percentage change from preceding year)

Item and country group	Average 1971-1977 a/	1976	1977 a/
Gross domestic product b/			
Sum of country groups	4.0	5.4	4.2
Developed market economies c/	3.2	5.2	3.7
Developing countries d/	5.7	6.0	6.3
Centrally planned economies e/ f/	6.1	5.5	4.3
Agricultural production g/			
Sum of country groups	2.4	2.2	2.2
Developed market economies c/	2.6	1.6	3.1
Developing countries d/	2.3	2.9	2.1
Centrally planned economies e/	2.1	4.4	0.7
Industrial production h/ i/			
Sum of country groups	5.2	8.1	5.5
Developed market economies c/	3.3	8.9	3.9
Developing countries d/	6.8	8.8	6.9
Centrally planned economies e/	7.3	5.6	6.3

Sources: 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; Food and Agriculture Organization of the United Nations, Monthly Bulletion of Agricultural Economics and Statistics (Rome); information supplied by the Department of Agriculture of the United States of America; 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 rough 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.

b/ Measured at constant market prices.

c/ North America, northern, southern and Western Europe, Australia, Japan, New Zealand, South Africa, Turkey and Yugoslavia.

(continued)

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

e/ Eastern Europe and USSR. Owing to lack of information, the Asian centrally planned economies, namely, China, the Democratic People's Republic of Korea, Mongolia and Viet Nam have not been included. For agricultural production, the data cover the Asian centrally planned economies as well.

f/ Data refer to net material product and are not strictly comparable to those of the other country groups.

g/ Based on index of gross output and hence not comparable with the national accounts measure of production. Methods of estimation differ among the country groups.

h/ 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.

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

Table 2. World agricultural production, 1971-1977

(Percentage change from preceding year)

Country group	Average 1971-1976	1975	1976	1977 a/
World	2.4	3.1	2.2	2.2
Developed market economies b/	2.5	4.0	1.6	3.1
North America	3.4	7.5	3.1	4.5
Western Europe	1.6	-0.8	-0.8	1.6
Oceania	1.9	7.5	4.7	-4.4
Other developed countries	1.7	2.2	-2.9	7.5
Developing countries c/	2.3	4.6	2.9	2.1
Africa	1.3	0.8	4.1	-
Latin America	2.6	2.3	5.1	2.1
Near East	4.2	5.0	4.7	-
Far East	2.4	7.6	0.7	3.5
Other developing countries	1.5	1.6	2.4	3.1
Centrally planned economies	2.4	-0.7	4.4	0.7
Asian centrally planned economies .	2.5	2.9	2.1	0.7
Eastern Europe and USSR	2.4	-2.9	6.8	-

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.

b/ Including Israel and excluding Cyprus and Turkey.

c/ Excluding Israel and including Cyprus and Turkey. The FAO regional grouping that is used in the table is as follows: "Africa" excludes South Africa, Egypt, Libyan Arab Jamahiriya and Sudan; "Latin America" includes the Caribbean; "Near East" includes Afghanistan, Bahrain, Cyprus, Democratic Yemen, Egypt, Gaza Strip (Palestine), Iran, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Oman, Qatar, Saudi Arabia, Sudan, Syrian Arab Republic, Turkey, United Arab Emirates and Yemen; and "Far East" includes Bangladesh, Bhutan, Brunei, Burma, Democratic Kampuchea, East Timor, Hong Kong, India, Indonesia, Lao People's Democratic Republic, Macau, Malaysia, Maldives, Nepal, Pakistan, Philippines, Republic of Korea, Sikkim, Singapore, Sri Lanka and Thailand.

Table 3. Industrial production: growth by country group, a/ 1971-1977

(Percentage change from corresponding period of preceding year)

Component and period	Developed market economies b/	Centrally planned economies c/	Developing countries b/	World d/
Industry e/				
Average, 1971-1977 . .	3.3	7.3	6.9	5.2
1975	-8.0	7.9	1.0	-1.6
1976	8.9	5.6	8.8	8.1
1977	3.9	6.3	6.9	5.5
First quarter . .	5.3	...	5.3	6.0
Second quarter . .	4.1	...	5.8	5.3
Third quarter . .	3.0	...	7.1	5.3
Fourth quarter . .	3.1	...	9.2	5.2
Mining				
Average, 1971-1977 . .	0.8	...	4.3	3.3
1975	-3.8	...	-8.9	-2.1
1976	2.1	...	9.8	4.9
1977	2.8	...	6.8	4.8
First quarter . .	3.5	...	6.4	4.9
Second quarter . .	4.7	...	4.7	4.0
Third quarter . .	2.4	...	3.1	4.1
Fourth quarter . .	0.9	...	12.8	5.7
Manufacturing				
Average, 1971-1977 . .	3.3	...	7.4	5.3
1975	-8.3	...	3.2	-1.9
1976	9.2	...	8.4	8.5
1977	4.0	...	6.8	5.6
First quarter . .	5.5	...	4.9	6.2
Second quarter . .	4.2	...	5.8	5.4
Third quarter . .	3.0	...	7.9	5.4
Fourth quarter . .	3.3	...	8.2	5.4

Sources: Centre for Developmant Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, and other national sources.

a/ The growth rates as shown in the table are derived from data compiled by the United Nations Statistical Office for publication in its Monthly Bulletin of Statistics, with the exception of data for the centrally planned economies, for which the data are based on national sources.

b/ Developed market economies include Israel and developing countries include Turkey.

c/ Eastern Europe and USSR.

d/ Sum of country groups.

e/ ISIC 2-4.

Table 4. World trade: annual growth rates, by country group, 1971-1977

(Percentage change from preceding year)

Item and country group	Average 1971-1977 a/	1976	1977 a/
Quantum of exports			
Market economies	6.2	11.1	3.8
Developed	6.6	11.0	4.6
Developing	4.3	14.2	1.5
Oil-exporting countries b/	1.7	14.9	-
Other	6.9	13.1	3.6
Centrally planned economies c/	8.5	7.9	9.0
Quantum of imports			
Market economies	6.1	12.5	5.6
Developed	5.4	13.5	5.0
Developing	8.8	9.3	8.2
Oil-exporting countries b/	20.0	26.2	18.0
Other	4.7	1.8	3.1
Centrally planned economies c/	8.9	6.7	3.0
Unit value of exports			
Market economies	13.2	2.3	9.6
Developed	11.1	0.3	8.3
Developing	19.3	6.5	13.4
Oil-exporting countries b/	33.1	6.0	10.6
Other	12.7	7.1	17.3
Unit value of imports			
Market economies	13.1	0.9	8.7
Developed	12.9	1.0	8.3
Developing	13.7	0.9	9.3
Oil-exporting countries b/	...	...	...
Other	...	...	...

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

Table 5. Developed market economies: current account balance, a/ by country group, 1975-1977

(Billions of dollars)

Country group	1975	1976	1977 b/
Developed market economies	9.9	-10.0	-15.4
Major surplus countries	11.8	17.3	22.3
Germany, Federal Republic of	7.5	7.2	7.4
Japan	-0.4	3.9	11.2
Netherlands	2.0	2.5	0.2
Switzerland	2.7	3.7	3.5
Major deficit countries	-5.6	-12.0	-0.9
Canada	-4.6	-4.2	-4.3
France	1.1	-5.0	-2.3
Italy	0.8	-1.7	3.6
United Kingdom	-2.9	-1.1	2.1
United States of America	21.7	7.9	-12.7
Small developed market economies c/	-17.9	-23.1	-24.1

Source: See table II-17.

a/ Balance on trade, services and private transfers.

b/ Preliminary estimates, based on data for first three quarters of the year, except for Switzerland which is based on Organisation for Economic Co-operation and Development, Economic Outlook, No. 22 (December 1977).

c/ Australia, Austria, Belgium, Cyprus, Denmark, Finland, Iceland, Ireland, Malta, New Zealand, Norway, Portugal, South Africa, Spain, Sweden, Turkey and Yugoslavia.

Table 6. Elements in the world balance of payments, by country group, 1971, 1975-1977

(Billions of dollars)

Item and country group	1971	1975	1976	1977 a/
Exports, f.o.b.				
World	349.0	869.3	984.4	1 123.2
Market economies	315.3	791.1	899.4	1 023.9
Developed	254.5	587.0	651.2	737.8
Developing	60.8	204.1	248.2	286.1
Oil-exporting countries b/	23.3	114.2	139.2	153.7
Other	37.5	89.9	109.0	132.3
Centrally planned economies c/	33.7	78.2	85.0	99.3
Imports, c.i.f. d/				
World	361.8	897.7	1 011.9	1 157.1
Market economies	329.1	809.9	919.8	1 056.4
Developed	265.4	618.2	708.4	806.2
Developing	63.7	191.7	211.4	250.2
Oil-exporting countries b/	12.8	57.9	73.8	95.1
Other	50.9	133.8	137.5	155.1
Centrally planned economies c/	32.7	87.8	92.1	100.7
Balance of trade e/				
World	-12.8	-28.4	-27.5	-33.9
Market economies	-13.8	-18.8	-20.4	-32.5
Developed	-10.9	-31.3	-57.2	-68.4
Developing	-2.9	12.4	36.9	35.8
Oil-exporting countries b/	10.5	56.3	65.4	58.7
Other	-13.5	-43.9	-28.5	-22.8
Centrally planned economies c/	1.0	-9.6	-7.1	-1.4
Changes in international reserves f/				
Market economies	40.5	6.7	29.7	59.9
Developed	35.3	-1.3	10.4	38.4
Developing g/	5.2	8.0	19.3	21.5
Oil-exporting countries b/	3.5	9.5	8.4	12.4
Other g/	1.7	-1.5	10.9	9.1

Table 6 (continued)

Item and country group	1971	1975	1976	1977 a/
Net changes in other balance-of-payment items h/				
Market economies	54.3	25.5	50.1	92.4
Developed	46.2	29.9	67.6	106.8
Developing g/	8.2	-4.4	-17.6	-14.4
Oil-exporting countries b/ . . .	-7.0	-46.8	-57.0	-46.3
Other g/	15.2	42.4	39.5	31.9

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics; International Monetary Fund, International Financial Statistics (Washington, DC); 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 USSR.

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.

Chapter I

THE DEVELOPING ECONOMIES

Summary

Based on preliminary estimates, the developing countries as a whole appear to have realized a rate of growth in total output of about 6.3 per cent in 1977. This rate is marginally higher than that recorded in 1976 and significantly higher than that of 1975. The improvement reflects a continuation of the recovery sustained by the non-oil-exporting countries over the past two years.

For the non-oil-exporting countries as a group, output rose by some 5 per cent in 1977, a gain of more than 1 per cent over performance in the preceding year. The modest improvement was aided by good harvests in South and East Asia and by continued advances during the first few months of the year in prices of numerous primary commodities. Among the countries that are members of the Organization of Petroleum Exporting Countries (OPEC), the growth in total output during 1977 was 9.2 per cent which, though still high, was slightly less than in the preceding year. Factors contributing to the moderation in growth were the virtual stagnation in oil production and deliberate efforts by Governments in some of these countries to check inflation.

Agricultural production in the developing countries as a whole grew at the moderate rate of 2.1 per cent in 1977. This compares unfavourably with the average rate realized over the years from 1971 to 1976 and clearly falls far short of the target rate of 4 per cent embodied in the International Development Strategy. Cereal production in all the developing countries grew by only 1 per cent compared with an annual rate of 2.7 per cent between 1970 and 1976. The year's performance as well as the trend of food production remained unsatisfactory, falling short of the target growth rate of 4 per cent agreed upon by the World Food Conference. This was also the assessment of the World Food Council at its June 1977 meeting. The Council expressed its great concern over the lack of implementation of the Universal Declaration on the Eradication of Hunger and Malnutrition and urged, *inter alia*, the acceleration of world food production, the creation of adequate food reserves, the expansion of food aid and the liberalization and improvement of food trade. 1/

The regional contribution to the agricultural performance of the developing world varied widely between zero growth in Africa and the Near East and about 3.5 per cent in the Far East. Latin America achieved an increase of 2.1 per cent. Unfavourable weather conditions including drought was the main reason for poor performance in Africa and the Near East. 2/

1/ The Council, however, noted with satisfaction the achievement of $1 billion in pledges for the International Fund for Agricultural Development.

2/ In reference to agriculture, the classifications of developing countries by regions are those of FAO; see introduction, table 2, foot-note c.

The growth of industrial production in the developing countries in 1977 was 6.9 per cent, which represented a deceleration from 8.8 per cent in the preceding year and was the same as the 1971-1977 average. The slowdown, which characterized both manufacturing and mining, was more noticeable in mining.

The slackening in industrial growth in the developing countries reflected, to some extent, the pace of recovery in the developed market economies. The intensification of protectionist measures in some developed countries was another factor that adversely affected a number of industries, including textiles and foot-wear. Textiles, which play a vital role in the economies of several developing countries and represent a major source of their export earnings, were noticeably hampered by the imposition of import restrictions.

World output of crude oil, including natural gas liquids, rose by nearly 4 per cent in 1977 over that of 1976 to about 61.7 million barrels per day, with all of the increase coming from non-OPEC countries. Whereas the share of OPEC countries declined gradually from 53.5 per cent in 1973 to 50 per cent in 1977, the share of the centrally planned economies rose between these two years from 17.5 per cent to 21.9 per cent. The contribution of the rest of the world - developed market economies and non-OPEC developing countries - declined marginally from 29 per cent in 1973 to 28.1 per cent in 1977.

The growth of oil output in 1977 was largely the result of expansion in the Union of Soviet Socialist Republics and China. In addition, the two new producing regions, the North Sea and Alaska, were contributing over 2 million barrels per day by the end of the year. Furthermore, a number of non-OPEC developing countries, including Egypt and Mexico, experienced an acceleration in their oil production. Among OPEC countries, the growth in some countries was offset by contraction in others. Indonesia, the Libyan Arab Jamahiriya, Nigeria, Saudi Arabia and the United Arab Emirates showed an increase in output and the remaining OPEC members showed a decline.

The price index of crude petroleum rose in 1977 by less than 10 per cent compared with increases of less than 5 per cent in 1976 and less than 2 per cent in 1975. This rise, however, was roughly half the gain in the prices of primary commodities for the year. A two-tier pricing system by OPEC was in effect during the first half of the year. Price increases, however, were realigned at mid year.

For primary commodities exclusive of petroleum, the average level of prices in 1977 was some 18 per cent higher than in 1976. This followed an increase of over 8 per cent in the previous year. Most of the 1977 gain was in the group of food commodities whose prices advanced by more than 28 per cent over the preceding year. Minerals showed the lowest increase in prices of all primary commodities, the gain being less than 3 per cent. The terms of exchange in the developing countries between export commodities and manufactured imports improved during the year by about 3 per cent compared to about 5 per cent in 1976. With petroleum excluded, the improvement was 8 per cent, or 1 per cent higher than 1976.

Though the average level of primary commodity prices rose for the year as a whole, the upward trend in prices that had begun after the 1974-1975 recession period was reversed in the course of the year. During the second quarter of 1977, most prices reached a peak and commenced to decline.

Unfortunately, international efforts to stabilize commodity prices made little progress in 1977. Negotiations on a Common Fund to be established under the Integrated Programme for Commodities of the United Nations Conference on Trade and Development (UNCTAD) were resumed in November 1977; but they were suspended without agreement being reached. Although some progress was made in respect of certain commodity agreements, such as the newly negotiated International Sugar Agreement, the general picture presented by the discussions on individual products within the Integrated Programme for Commodities has not matched the hopes that Governments expressed at the fourth session of UNCTAD. The related Ad Hoc Intergovernmental Committee for the Programme, whose preparatory work was to have been completed by the end of February 1978, has recommended the rescheduling of its meetings to later dates extending until the end of the year.

During 1977, many non-oil developing countries continued to improve their balance-of-payments position. Both significant gains in export earnings and cautious balance-of-payments policies were responsible for the improvement. Thus a moderation of the balance-of-payments deficit was accompanied by commendable restraint in the growth of the volume of imports. The volume of imports into the non-oil-exporting countries, in fact, increased by only 3.1 per cent, which followed an increase of less than 2 per cent in 1976.

While the growth of external borrowing continued, many countries augmented their foreign exchange reserves in 1977. Although the reserves/imports ratio is still below the 1973 level of 31 per cent, the non-oil developing countries are estimated to have increased their reserves by about $20 billion in the past two years.

While external borrowing has played a major and effective role in the adjustment process, helping to cushion the economies of many deficit countries, its recent sharp growth has become a cause for concern. This has been aggravated by the rapid increase in the proportion of borrowing from private sources. Such borrowing gives rise to a number of concerns about the cost of borrowing, the shortening of maturities and the reliance on funds from a relatively small number of banks whose desire or capacity to continue to increase their lending may be limited and uncertain.

While the flow of private funds to the developing countries continued to increase in 1977, official development assistance remained at about the same level as in 1976. In real terms, therefore, it continued to contract.

If price changes in developing countries are aggregated, the rate of price increase is seen to have decelerated slightly during the year, mainly on account of a sharp decline in the inflation rate of a few countries, notably Argentina and Chile. The most conspicuous changes took place in Latin America where the inflation rate was cut by about one third to over 50 per cent and in East and South Asia where the rate changed from -1.0 per cent in 1976 to 9.1 per cent in the third quarter of 1977. Taking countries individually, however, acceleration was the rule for the majority.

Agricultural production

Salient features of total agriculture and food production

Agricultural production in the developing countries increased by 2.1 per cent in 1977, following a rise of 2.9 per cent in 1976 (table I-1). Although these rates represent a significant decline from that registered in 1975 when agricultural output rose by 4.6 per cent, they should be viewed as additional gains over the record output of 1975. However, because of the extremely low agricultural production in both 1971 and 1972, the 1971-1976 average growth rate remains below the average rate achieved in the 1960s and substantially below the target rate of 4 per cent set in the International Development Strategy for the Second United Nations Development Decade.

The low rate of growth of agricultural production in the developing countries in 1977 resulted from the poor performance of the agricultural sector in Latin America and the stagnation in Africa and the Near East. As a result, the average annual rates of growth for the period 1971-1977, as compared to the period 1971-1976, fell in all three regions: in Africa from 1.4 per cent to 1.1 per cent; in Latin America from 3.0 per cent to 2.7 per cent; and in the Near East from 4.4 per cent to 3.7 per cent (though at 3.7 per cent, it is still the highest among all the regions of the world). In sharp contrast, the poor performance of the agricultural sector in the Far East in 1976 was reversed in 1977, when the rate of growth of agricultural production (3.5 per cent) was considerably above the average rate for the 1971-1976 period.

Agricultural production failed to increase in the African region because of drought which affected the crops in several countries, particularly in North Africa. Algeria, Morocco, Senegal and Tunisia all had severe drought that was detrimental to crops and livestock, bringing about significant declines in agricultural production in 1977 - ranging from 3.5 per cent in Tunisia to nearly 23 per cent in Morocco. Results also fell below expectations in several other African countries; in Chad, Ethiopia, Mali, Mauritius, Mozambique, the Niger, Sierra Leone, Zaire and Zambia agricultural production was moderately lower in 1977 than in 1976, reflecting unfavourable weather conditions and/or political disturbances. At the other end of the scale, 10 countries - Benin, Guinea, Ivory Coast, Kenya, Lesotho, Malawi, Nigeria, Swaziland, the United Republic of Cameroon and the Upper Volta - achieved growth rates between 4 and 13 per cent. In addition, 13 more countries 3/ showed increases in production that ranged between 2 and 3.5 per cent. However, the gains recorded by some countries were just sufficient to balance the losses in others, thus leaving the total output for the region stationary.

In Latin America, 4/ the performance of the agricultural sector was severely affected by a 5.2 per cent decline in production in Argentina. By contrast, production increased by 7.7 per cent in Colombia, 4.4 per cent in Brazil and

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3/ Angola, Botswana, Gabon, Gambia, Ghana, Liberia, Madagascar, Malawi, Namibia, Réunion, Rwanda, Somalia and Togo.

4/ Four countries - Argentina, Brazil, Colombia and Mexico - account for almost 77 per cent of the regional output.

3.6 per cent in Mexico. At least eight countries 5/ in the region showed gains of more than 6 per cent. The increase in production was particularly marked in Barbados (10.8 per cent), Paraguay (22 per cent), Nicaragua (11 per cent) and Chile (10 per cent).

In the Near East, the lack of any increase in agricultural production reflected a more than 10 per cent decline in the output of the agricultural sector in Iraq and the Syrian Arab Republic. Besides these two countries, drought in Afghanistan, Bahrain, Democratic Yemen, Jordan and Yemen, resulted in significant declines in their total agricultural production. Drought also caused extensive damage to crops in Iran and the Libyan Arab Jamahariya, as a result of which these two countries registered only moderate increases in production. Offsetting these setbacks to some extent was a sharp increase in production in the Sudan and a slight improvement in Egypt.

After near stagnation in 1976, agricultural output in the Far East in 1977 increased by 3.5 per cent. Once again the results in 1977 revealed the heavy dependence of agriculture on favourable monsoon rains, thus emphasizing the need for expansion of areas under irrigation and improved management of water resources. Reflecting a favourable monsoon season, production in India, which accounts for almost half the regional output, increased by more than 5 per cent. Agricultural output in Sri Lanka, which fell in 1976, was up by 10 per cent. Output increased by 9.5 per cent in the Republic of Korea, 8.5 per cent in Bangladesh and more than 4 per cent in Pakistan. On the other hand, only moderate increases were recorded by Burma and Malaysia; and production fell in Indonesia, Nepal, the Philippines and Thailand. In Indonesia, drought reduced the rice harvest; in Thailand, drought and, subsequently, floods adversely affected the crops.

In 1977, total food production in the developing countries increased by only 1.4 per cent. 6/ This modest growth, which was preceded by substantially higher growth of 6.1 per cent in 1975 and 3.6 per cent in 1976, reflected an absolute decline in production in Africa and the Near East and a moderate increase in Latin America. The Far East region, on the other hand, was the only one that recorded a significant increase of 3.5 per cent. Further, the low rate of growth of food production in 1977 led to a slightly lower average growth of 2.5 per cent for the period 1971-1977 as compared to 2.7 per cent during 1971-1976. It would, thus, appear that in the first seven years of the 1970s the rate of increase in food production in the developing countries barely kept pace with the rate of population growth. Among the various regions, only in the Near East did food production increase faster than population during the period; in Latin America and the Far East, rates of increase in food production and population were almost identical; and in Africa, food production fell far below the rise in population.

Development by commodity groups

Basic food-stuffs

Following a 2.3 per cent rise in 1975 and an 8 per cent increase in 1976, world cereal production fell in 1977 by about 1 per cent from the 1976 record level, with a sharply reduced harvest in the USSR and declines in several major producing areas

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5/ Barbados, Chile, El Salvador, Guatemala, Honduras, Nicaragua, Paraguay and Venezuela.

6/ See table I-2.

(see table I-3). 7/ Both rice and coarse grains were at record levels; the decline in cereal production was entirely due to a lower wheat harvest. The world food situation remained satisfactory in 1977 after a distinct improvement in 1976. Although there is some deterioration in the world supply/demand situation, the 1977 cereal crop is still considered more than adequate for consumption requirements till the end of 1978 and world cereal stocks 8/ are anticipated to increase from 158 million tons to about 174 million tons. Since there are sitll millions of people in the developing countries who fail to satisfy their minimal daily nutritional requirements, these surpluses or increases in stocks should be viewed solely as a reflection of the balance between supplies and the level of effective demand in the world.

In the developing countries, the sharp recovery in cereal production in 1975 and 1976 was moderated in 1977. Total cereal production in 1977 is estimated at 431 million tons as compared to 427 million tons in 1976 and 416 million tons in 1975. The Far East was the only region to show an increase in cereal production in 1977, which reflected a sharp rise in rice production; cereal production fell in the other three regions - Africa, Latin America and the Near East. The decline was particularly marked in Africa where the situation remained as a special problem in 1977. Production of all types of cereals - rice, wheat, coarse grains - was down in that region; and during the year critical food shortages emerged in at least 15 9/ countries.

World production of rice (paddy) is estimated at 350 million tons, some 4 per cent higher than in 1976, largely as a result of an adequate and timely monsoon over most of Asia, where the bulk of the world paddy crop is harvested. In the developing countries, rice production increased by nearly 6 per cent. The increase was concentrated in the Far East and the Near East regions, in which the 1977 harvest was nearly 8 per cent above the 1976 level. Following an excellent monsoon and owing to favourable growing conditions, record rice crops were harvested by Bangladesh, Burma, India, the Republic of Korea, Nepal, Pakistan, the Philippines and Sri Lanka. In contrast, a prolonged dry spell in Thailand and drought earlier in the year in Malaysia reduced paddy harvest in these two countries and output in Indonesia stagnated because of dry weather. In the Near East, Egypt, Iran and Iraq registered significant increases in production. Outside these Asian regions, output was lower in Latin America primarily as a result of reduced levels of output in Brazil, Colombia, Ecuador and Peru; in Africa the output remained stationary, gains in some countries being balanced by losses in others. World rice stocks, which remained unchanged at 17 million tons in 1977, are expected to increase to 20 million tons in 1978.

Since sufficient stocks were available to meet the important requirements of the rice-deficit countries, world market prices remained fairly stable in the first

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7/ Production was down in Australia, Austria, Canada, Finland, Greece, Ireland, Italy, the Netherlands, New Zealand and Portugal in the developed market economies; in Bulgaria, Poland and Romania, besides the USSR, in the centrally planned countries. The steepest decline was in the USSR - a loss of more than 28 million tons.

8/ Excluding USSR and China.

9/ Angola, Benin, Botswana, Chad, Ethiopia, Gambia, Ghana, Guinea-Bissau, Lesotho, Mauritania, Mozambique, Rwanda, Senegal, Togo and Upper Volta.

half of 1977. However, as a result of the strong demand from several countries, including Indonesia, Iran, Saudi Arabia, Ivory Coast and Nigeria and several other countries in the Near East and Africa, prices moved upwards in the second half of the year - from $259 per ton for Thai white rice, 5 per cent f.o.b. Bangkok at the beginning of the year, to $272 in July and to $288 per ton by the end of the year.

After a 17.5 per cent increase in 1976, world wheat production fell in 1977 by a little more than 7 per cent; however, at 388 million tons the 1977 harvest was still the second largest one since 1970 and only marginally below long-term trends. In the developing countries, for which data are still very tentative, wheat production was down by almost 7 per cent. 10/ With the exception of the Far East region, all the other regions registered declines, which were particularly sharp in Latin America (30 per cent) and Africa (35 per cent). In Latin America, the 1977 wheat crop in Argentina is estimated at only 6 million tons, as compared to 11 million tons in 1976. Although dry weather during the growing season affected yields, the reduction was mainly due to reduced acreage, reflecting the dissatisfaction of growers with the prices of early season wheat relative to those of other crops and livestock. Reduced acreage and drought conditions also caused significant declines in output in Mexico and Uruguay. Widespread drought conditions during the spring of 1977 reduced the wheat crop in Algeria, Ethiopia, Kenya, Morocco and Tunisia in Africa; and in Democratic Yemen, Iraq, Jordan, the Syrian Arab Republic and Yemen in the Near East. After a sharp increase in 1976, output was up marginally in India; Pakistan harvested a record crop, up more than 6 per cent from the previous year; and all the other countries in the Far East region made marginal gains.

As a result of a general easing of supplies, world 11/ wheat stocks increased for the second consecutive year from 49 million tons in 1975 to 59 million tons in 1976 and to 83 million tons in 1977. As a result of poor harvests in 1977 the main exporting countries are not likely to cover both their domestic requirements and export demand in 1978; thus world wheat stocks are anticipated to decline by nearly 5 million tons in that year. Reflecting these developments, in 1977 wheat prices on the international market continued to decline till August (they fell from $110 per ton early in the year to $97 in August); however, prices began to move up somewhat in September as the preliminary estimates of the 1977 crop became available.

After a gain of 55 million tons in 1976 in world coarse grains production, output in 1977 remained near the 1976 level - 720 million tons in 1977 as compared to 717 million tons in 1976. 12/ In 1977, after significant increases in production

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10/ Output also fell both in the developed market economies and the centrally planned economies, reflecting significant declines in Australia, Canada, China, Greece, Italy, Poland, Romania, Spain, Sweden, the USSR and the United States of America.

11/ Excluding USSR and China.

12/ This modest increase in output in 1977 masks wide variations in production performance of various country groups. For example, production was up by almost 24 million tons in the developed market economies, reflecting a 16 per cent increase in the harvest in Western Europe and a 4 per cent increase in the United States of America. By contrast, production fell in the USSR by more than 21 million tons, thus cancelling out the gains recorded in other areas.

during each of the preceding four years, expansion in coarse grains production came to a halt in the developing countries, although the results varied considerably by country. However, the 1977 harvest, estimated at 152.6 million tons, was still marginally above the previous record of 152 million tons achieved in 1976. The outstanding features of the season were the sharp recovery in the coarse grains harvest in Latin America (an increase of more than 13 per cent), a dramatic downward reversal in Africa and the Near East and a substantial decline in the Far East for the second year. In Latin America, the most striking improvement was the 32 per cent increase in Argentina and the moderate to large increases in several other major countries - Brazil, Chile, El Salvador, Guatemala, Honduras, Mexico, Peru and Venezuela. Elsewhere, the decline in harvest is primarily accounted for by the decline in India and Thailand in the Far East; Egypt, Iraq and the Syrian Arab Republic in the Near East; and Ethiopia, Morocco, Niger and Zambia in Africa.

After declining for four successive years, carry-over stocks 13/ of coarse grains are estimated to have increased by 11 million tons to 58 million tons by the end of 1977. On the basis of current estimates of production and consumption requirements, stocks are projected to increase further by almost 18 million tons during 1978. As a result of surplus supplies, international prices of coarse grains remained under a downward pressure throughout 1977.

In 1977, world meat production increased by 3.5 per cent; in the developing countries it rose by 2 per cent, slightly above the long-term trend of 1.5 per cent. Meanwhile, the share of developing countries in total world meat production fell from 19 per cent in 1970 to 18 per cent in 1977, implying relatively lower per capita supplies in 1977 than at the beginning of the current decade. The increase in production was shared by all four regions. However, sharp increases were recorded by some important meat-importing countries - Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya, Nigeria and Saudi Arabia - as these countries intensified their efforts to develop the domestic livestock sector, based on imported feed-grains. This development is partly reflected in the fact that coarse grains now account for 24 per cent of total cereal imports of the developing countries.

Other food-stuffs

World sugar production in 1977/78 is estimated at 90 million tons, raw value, representing an increase of 5.2 per cent over 1976/77. In the developing countries, production increased by 3 per cent. Among the various developing regions, output rose by 11 per cent in the Far East and 4.4 per cent in Africa; it fell slightly in two regions - Latin America and the Near East. In Latin America, significant gains were made by Barbados, Belize, Bolivia, Brazil, Ecuador, Honduras, Panama and Venezuela in the 1977/78 crop year but these gains failed to compensate for declines in production in Chile, Colombia, Cuba, Guyana, Jamaica, Trinidad and Tobago, Mexico, Peru and Uruguay. A drop in production was caused by several factors: dry weather during the early part of the season reduced yields in Colombia, strict controls on consumer prices discouraged cane planting in some countries and low sugar prices led to a reduction in inputs of fertilizer and chemicals in others. In the Near East, only Iran recorded a decline of almost 10 per cent. In the Far East, with the exception of the Philippines, output rose

13/ Excluding USSR and China.

significantly in India (13.5 per cent), Indonesia (5 per cent), Pakistan (16 per cent) and Thailand (31 per cent). In the Philippines, yields were lower because of excessive rainfall during the harvest. In Africa, most of the countries intensified their efforts to achieve self-sufficiency in sugar requirements and to limit imports. With the exception of Ethiopia, Kenya, Madagascar and Mauritius, all the other countries achieved significant gains in production. Insect infestation reduced the potential output in Mauritius. Despite political disturbance, Ethiopia's production of 135,000 tons in 1977/78 was almost the same as last year's.

The change from shortage to surplus on the sugar market during 1976, resulting from a sharp increase in production in that year, caused world free-market sugar prices to decline from 13.2 cents per pound in July 1976 to less than 10 cents per pound in the following month. Since then and until the end of 1977 prices remained low, fluctuating between 7.1 cents and 10 cents per pound. Besides the availability of a large sugar surplus on the market, two other factors contributed to this decline: the prospect of a further increase in 1977/78 world sugar production and the approval of the text of the new International Sugar Agreement on 7 November 1977. Sugar-exporting countries with surplus stocks tried to sell large quantities before 1 January 1978, when exports were subjected to quota restrictions under the new International Agreement.

World coffee production, after dropping sharply in 1976/77, increased by more than 20 per cent in 1977/78, 14/ though at 4,385,000 tons it remained below the average annual production prior to the 1975 frost in Brazil. Latin American production for 1977/78 is estimated to be 33 per cent above the 1976/77 output. The increase was largely the result of a partial recovery in the Brazilian crop to 943,000 tons - up by about 66 per cent from the 1976/77 production, but still well below the pre-frost crop of 1975. Among the other important coffee-producing countries in Latin America, Colombia, Mexico, Nicaragua, Peru and Venezuela all made gains, in some cases because recent plantings had reached the bearing stage and in others because of heavy use of fertilizer coupled with careful cultural practices. In contrast, coffee production was down in Costa Rica and Ecuador. Lack of rainfall during the critical period of first flowering reduced potential yields. Output also turned out to be below expectation in Guatemala and Honduras.

Production of coffee in Africa and Asia was about 5 per cent higher than the 1976/77 output. Total African production for 1977/78 is estimated at 1,308,000 tons, up from 1,241,000 tons in the preceding crop year. Kenya and the United Republic of Cameroon registered large increases in production, 33 per cent and 12.5 per cent, respectively. In most other major coffee-producing countries - Ethiopia, Ivory Coast, Madagascar, Uganda, the United Republic of Tanzania and Zaire - rates of increase ranged between 2 and 4 per cent only. Prospects for good crops in these countries deteriorated due to several factors, such as political disturbances, a long dry period early in the crop season and the prevalence of coffee berry disease. In Asia, India produced a record crop in 1977/78, up more than 21 per cent from the previous year.

14/ The coffee marketing year begins about July in some countries and about October in others. The crop harvested principally during June to October 1977 is reported as production for the 1977/78 marketing year.

The international price of coffee, which started to rise in July 1975, continued an upward trend till April 1977. The International Coffee Organization (ICO) composite price for green coffee averaged 63 cents a pound, ex-dock, New York, in June 1975. With importers competing vigorously for limited supplies, the price rose from 89 cents in August 1975 to $2.28 in January 1976 and reached a peak level in April 1977 - $3.33 a pound. However, beginning mid April, there was a sharp turnaround in coffee price, dropping to an average (ICO) composite of $2.96 per pound in May, $2.70 in June, $2.24 in July and $1.71 in October. Several factors contributed to this dramatic fall in international price: by mid April import demand had begun to fall because of seasonal summer decline in consumption as well as consumer resistance to higher prices in major coffee-consuming countries, green coffee stocks in the major importing countries were well above normal and the outlook for the 1977/78 world coffee crop became very favourable.

In an effort to turn prices upwards or at least to stem their downward slide, several coffee-producing countries adopted a number of measures. To maintain the price of coffee at $3.20 per pound, Brazil stopped export sales from May through November 1977. In October, 10 coffee-producing countries (Brazil, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua, Panama and Venezuela) decided to suspend all exports of coffee until prices improved; all the countries complied with this decision until the first week of December. Further, Mexico, along with several other coffee-producing countries, formally submitted a proposal for the creation of an international coffee stabilization fund scheme at the ICO Council meeting in London in September 1977. Under the proposed scheme, the fund would be used to maintain an international buffer stock, buying or selling coffee when market prices moved beyond certain limits deemed equitable by both producers and consumers. Following this proposal, ICO at its November meeting commissioned a study to explore the feasibility of an international stock arrangement.

After the disappointing harvest of 1,356,000 tons in 1976/77, which was the lowest output since the 1968/69 season, world production of cocoa in 1977/78 15/ is estimated at 1,476,000 tons, 8.8 per cent higher than in 1976/77. African production is estimated to have increased by more than 11 per cent. Among the four major producers in Africa, production increased by almost 43 per cent in Nigeria, 10 per cent in the United Republic of Cameroon and more than 4 per cent in Ivory Coast. In contrast, Ghana's 1977/78 crop remained stationary after the poor 1976/77 output of 320,000 tons. Although producer prices for the 1977/78 crop were increased by almost 85 per cent in Ghana, the dry weather from April through early June in 1977 reduced the crop potential. In order to expand the production of cocoa, in Ivory Coast, Nigeria and the United Republic of Cameroon, producer prices for the 1977/78 season were set well above the prices paid for the 1976/77 crop, which induced growers to increase the usage of fertilizers and pesticides.

In Latin America, too, production increased by 5 per cent, reflecting gains in Brazil (3.3 per cent), Ecuador (7.7 per cent), Mexico and the Dominican Republic (each 6.3 per cent) and Venezuela (36 per cent). The Brazilian Government plans to increase cocoa production to 700,000 tons by 1990, compared with 240,000 tons

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15/ The crop harvested principally during October 1977 is reported as production for the 1977/78 marketing year.

in 1977. In 1976, an estimated 19,000 hectares were put into cocoa production and an additional 86,000 hectares were planned for the following two years.

As a result of a tight supply situation, stocks were drawn down for two consecutive years - 1976 and 1977. If production estimates for the 1977/78 crop are realized, there may be a small stock build-up in 1978. Because of short supplies, world cocoa prices, which started to rise in April 1976, continued to increase during the rest of the year and then rose sharply during 1977, with the New York spot "Accra" cocoa bean prices quoted as high as $2.60 per pound in mid September, well above the average 1976 level of $1.10 per pound. Under the International Cocoa Agreement, the price range for cocoa beans was increased frcm 68 to 81 cents per pound effective 1 October 1977. However, the agreement has remained inoperative because world cocoa prices stayed well above the new price range.

After a moderate increase of 2.3 per cent in 1976, world <u>tea</u> production is estimated to have increased by almost 3 per cent in 1977/78, which brought output to a record high of 1,668,000 tons. At 1,123,000 tons, tea production in developing countries is 2.4 per cent above the 1976/77 total, despite a modest decline in output in the Far East. Although India implemented various policy measures to increase output, production declined by more than 2 per cent because of poor weather conditions. In Sri Lanka output rose by less than 2 per cent and the other two major tea-producing countries in the Far East - Bangladesh and Indonesia - recorded marginal increases in production. In other regions, production was appreciably higher: in Africa it was 17 per cent and in Latin America, 4.3 per cent. On a country basis, Kenya, Malawi, Uganda, the United Republic of Tanzania and Zaire in Africa and Argentina in Latin America all registered sharp increases in production.

Beginning in 1974, for three years in a row the world supply demand situation for tea was in a near balance, which continued in 1977 as world consumption of tea was given a boost because of record high coffee prices. After having gradually lost its market share to coffee for many years, in 1977 tea consumption in the United Kingdom showed an upward trend. As in 1975 and 1976, in 1977 <u>per capita</u> tea consumption in the United States of America increased slightly, reflecting high coffee prices. Tea consumption was increasing in many developing countries, particularly in the higher-income countries of the Near East and Africa.

The sudden upsurge in consumption resulted in a sharp increase in world tea prices. The upward trend in the London auction prices for all teas continued until April 1977 when it reached a record high average of $1.87 per pound. However, prices began to ease downwards as supplies from the 1977 world crop reached the market. London prices averaged about 51 cents per pound during the 1966-1975 period, 63 cents in 1975, 70 cents in 1976 and $1.35 per pound in 1977.

Reflecting sharply higher world tea prices, export earnings of tea-producing countries are estimated to surpass $1 billion in 1977, as compared to $820 million in 1976 and $800 million in 1975.

Efforts to establish an International Tea Agreement were intensified during 1977. At the fifth session of the Intergovernmental Group on Tea, held from 1 to 14 October at the Rcme headquarters of the Food and Agriculture Organization of the United Nations, consensus was reached to regulate world production and trade through a combined system of price ranges and the regulating of stocks.

Raw materials

World output of natural rubber rose by little more than 1 per cent during 1977, to about 3.59 million tons. Malaysia's total output fell by nearly 1 per cent, mainly because of government actions in the past few years aimed at reducing natural rubber production in response to falling prices. However, production in Sri Lanka and Thailand increased by more than 5 per cent. The upward trend in Africa continued, as trees planted in the beginning of the 1970s in Ivory Coast, Liberia and Nigeria reached maximum yields. In Latin America, increases in Bolivia and Colombia were offset by a lower output in Brazil.

Although world production increased significantly, in 1976 it fell short of consumption. Reflecting the supply/demand imbalance, prices climbed to over 40 cents per pound. 16/ Despite an increase in demand in 1977, the international price remained relatively stable until August 1977 at around 40 cents per pound, reflecting both sufficient production capacity and adequate stocks of synthetic rubber. In the last few months of 1977, rubber prices moved upwards to 45 cents when some of the centrally planned countries entered the world market as buyers.

In 1977/78, world production of jute and substitutes 17/ rose by almost 5 per cent, though at 4,327,000 tons it remained well below the record output of 4,715,000 tons in 1973. In the developing countries, production increased by 7.4 per cent in 1977/78, reflecting primarily a gain of 8 per cent in the Far East region. In Latin America, total output fell 2 per cent from the previous year's level; in Africa, output remained at the 1976/77 level. In the Far East, production increased by 19 per cent in Bangladesh, by 13 per cent in Thailand, by 27 per cent in Nepal and by 5 per cent in Burma. 18/ India registered the only slight decline in output.

The export price of raw jute rose from a monthly average of \$290 per long ton in December 1976 to \$320 per long ton in February 1977; until September 1977, it remained steady and within the range of \$314 ± \$16 per long ton, set by the Intergovernmental Group on Jute and Substitutes. At the October 1977 meeting of the Intergovernmental Group on Jute and Substitutes, producers demanded an increase in prices because of higher production costs. As a result, the indicative price for jute was raised from \$314 ± \$16 per long ton to \$335 ± \$15 per long ton and the indicative price for kenaf was raised to \$251 ± \$15 per long ton.

World cotton production in 1977/78 is estimated at 14.2 million tons, 15 per cent above that of the previous year and 3 per cent above the record of 13.8 million tons set in 1974/75. Output recovered by 17 per cent in the developing countries after two years of declining production. Results were very encouraging in

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16/ An agreement to stabilize the price of natural rubber was signed by five leading producing countries (Indonesia, Malaysia, Singapore, Sri Lanka and Thailand) in November 1976. Following this agreement, an Intergovernmental Task Force was created in June 1977 to consider and assess the specific elements of a possible commodity agreement for natural rubber and submit concrete proposals by February 1978.

17/ Mesta and kenaf.

18/ The significant upturn in production is largely attributed to increases in harvested area. In 1977, for the first time, the Thai Gunny Association agreed to guarantee minimum prices to kenaf growers.

all developing regions: the 27 per cent expansion in output in Latin America was the largest since 1972 and production increased by 16 per cent in the Near East, 12.7 per cent in the Far East and by 6 per cent in Africa. However, production levels in all the developing regions except Africa were below the levels achieved in 1974/75. Although cotton prices started to fall in March 1977 and were down by about one third in import markets by September, prices of competing crops also fell so that the cotton crop appeared at least as rewarding as alternative crops. As a result, the total planted area in the developing countries increased by more than 6 per cent in 1977/78 and average yields improved significantly because of generally good weather. Among the major cotton-producing countries of Latin America, Argentina, Brazil, Colombia, El Salvador, Guatemala, Mexico, Nicaragua, Paraguay and Peru all registered significant increases in production. In the Far East, production rose by almost 11 per cent in India and by 19 per cent in Pakistan. Egypt, the Syrian Arab Republic and the Sudan in the Near East harvested substantially larger crops. In Africa, there were bumper crops in Benin, the Central African Empire, Chad, Ivory Coast, Madagascar, Mali, Mozambique, Nigeria the United Republic of Cameroon, the United Republic of Tanzania and Zaire.

As noted before, world cotton prices fell rapidly from March 1977 through August, then paced downwards at a slower rate through October. The steep fall in cotton prices was caused by the conjunction of the anticipated larger crop of 1977/78 and falling demand, particularly in the industrialized countries, reflecting a slowdown in cotton textile consumption. Although the textile mills generally had low stocks of cotton, they waited for the new crop to be harvested to replenish their supplies.

After more than a 2 per cent decline in 1976, world wool production 19/ is estimated to have fallen again in 1977 by almost 1 per cent. In the developing countries, which account for less than 25 per cent of the total world production, output was up by nearly 2 per cent, reflecting marginal increases in Latin America, the Near East and the Far East regions. Owing partly to the slow economic growth and partly to higher domestic market prices for woollen textiles in a number of important consuming countries, demand for wool in developed countries remained rather slack. However, reflecting a tight supply situation on the international market, wool prices moved steadily upwards throughout the year.

19/ Among the five major wool-producing countries, Argentina, South Africa and the USSR registered moderate gains; Australia and New Zealand, on the other hand, showed a marked decline in output.

Industrial production

Growth in manufacturing output

In 1977, industrial production in the developing countries continued to grow but at a much lower rate than in 1976. The deceleration in over-all industrial growth rates affected all major developing regions, although in varying degree. The African region seems to have experienced a larger decline in industrial activity than the western hemisphere or Asia.

Among the major external factors that caused a poorer industrial performance in 1977 were the lack of sufficient economic expansion in industrial countries, rising protectionism and, in the latter part of the year, falling prices for developing countries' exports. Within countries, certain economic factors on both the supply and the demand side as well as some government policies and measures contributed to the 1977 slowdown in industrial activity in the developing countries.

With regard to the growth of the manufacturing sector, deceleration was evident in all the regions and in most industries. In Africa, manufacturing growth fell from 7.1 per cent in 1976 to 4.5 per cent in 1977. In Asia and the western hemisphere, the rates were, respectively, 8.2 per cent and 6.0 per cent in 1977 as compared to 11.7 per cent and 6.6 per cent in 1976.

Light manufacturing played a significant role in total manufacturing growth in Africa and Asia. Especially important was its contribution to the industrialization process in Africa, where it served as the main source of manufacturing growth in 1977: light manufacturing output increased by 7.2 per cent, which represented a significantly higher growth rate than that recorded for over-all manufacturing activity in that region. Africa's growing output of food, beverages and tobacco (11.6 per cent) was the main springboard for the growth recorded by light manufacturing. In Asia and the western hemisphere, production of food, beverages and tobacco also played an important role, with increases of 7.1 per cent and 3.4 per cent, respectively, over the previous year. Two major factors seem to have contributed to this expansion in 1977 - a revival of domestic demand for consumer goods due to higher earnings from such agricultural exports as coffee and cocoa, and a sustained growth in local processing of agricultural raw materials.

The protectionist measures taken by the developed market economies in 1977 adversely affected the growth of light industries, notably textiles, in the developing countries. In that year, the output of textiles increased by 1.1 per cent in the western hemisphere and by 1.2 per cent in Asia; the available data indicate an increase of 2.6 per cent in the African region. With the textile industry playing a vital role in a great many developing countries, these trends could not but affect negatively the over-all industrial growth of the developing countries.

Heavy manufacturing showed a strong performance in 1977 in Asia and the western hemisphere, where its output expanded by 10.5 per cent and 8.4 per cent, respectively. In Africa, preliminary data indicate that there was a slight decline of 0.4 per cent. In the two former regions, developments in heavy manufacturing had some features in common: heavy manufacturing grew faster than total manufacturing and this growth was largely generated in the branches supplying producers' goods - basic metals, metal products, and machinery and equipment. Industrial chemicals, petroleum and coal products as well as petroleum refining recorded smaller increases. In Africa, a stagnation in chemicals and cutbacks in production of basic metals, machinery and equipment resulted in the over-all decline in heavy manufacturing.

Masked by these rates of growth for the developing countries as a whole and for various regions are the wide variations in results among individual countries within each region. In the western hemisphere, among the big three countries (Argentina, Brazil and Mexico) whose combined share in total industrial output of the region is more than 60 per cent, there was a sharp recovery in Argentina and a more modest increase in Mexico but a decrease in the rate of growth of Brazil. In the Andean countries, manufacturing output accelerated in Chile and Colombia, continued to expand at the same pace as in 1976 in Bolivia but decelerated in Peru.

Export-led upswings in manufacturing activity continued in all the Central American countries - Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua. In the last four countries, in addition to good agricultural harvests the implementation of public investment programmes boosted the domestic demand for manufactured goods, which helped to sustain a high rate of growth in industrial output. In an effort to contain the resulting inflationary pressures, the Governments of these countries had to adjust demand management policies.

Three oil-exporting countries - Ecuador, Trinidad and Tobago, and Venezuela - achieved rates of expansion in manufacturing production fairly similar to those of the previous year. Venezuela emphasized projects leading to the diversification of the manufacturing sector. Rapid expansion of the non-petroleum industrial sectors and a determined public investment effort fueled import demand, which reduced the trade surplus in 1977 by nearly 50 per cent. In Ecuador, strong aggregate demand, resulting from large investment outlays which were partly made possible by substantial capital inflows, helped to sustain expansion in manufacturing activity but also led to a more than 40 per cent increase in imports, thus nearly eliminating trade accounts surplus.

In Asia, manufacturing activity accelerated in Pakistan, Sri Lanka and Thailand and continued at a high rate in Malaysia but decelerated in India and the Philippines. In Pakistan, despite political disruptions and shortages of cotton inputs, manufacturing output expanded by almost 9 per cent in 1977 - a significant improvement over the preceding year's moderate increase. Although India's economy rebounded in 1977 and recorded a growth of almost 5 per cent, reflecting significant increases in agricultural production and strong expansion of exports, the manufacturing sector remained a problem area. Owing to power shortages, strikes, weak demand and excess capacity, manufacturing output expanded by only 4 per cent, as compared to 10 per cent in 1976. The rate of growth of manufacturing output in the Philippines declined by nearly 1 per cent in 1977. Slack domestic demand resulting from declining export earnings due to lower prices and weak foreign demand for many of the Philippines' exports prevented an acceleration in manufacturing output.

Reflecting slower growth of world trade as well as subdued domestic demand, the growth pace in manufacturing activities decelerated in the export-oriented economies of Hong Kong, the Republic of Korea and Singapore in 1977. Slow economic growth, high inventory levels and protectionist measures in industrialized countries adversely affected some important industries in these countries, including textiles and shipbuilding. Only the electronics industry continued to do well in 1977. However, all three economies still recorded high rates of growth in manufacturing, Hong Kong recording 7 per cent, the Republic of Korea, 9 per cent and Singapore, 8 per cent.

Benefiting from substantial foreign exchange earnings and strengthened domestic demand largely because of a sharp rise in public investment and a surge in private investment, manufacturing activity continued at a fast pace in 1977 in all the oil-exporting countries of Asia. In an attempt to diversify their economies, all the countries emphasized the non-petroleum sectors, particularly manufacturing. However, progress was moderated to some extent as a result of various constraints that emerged during the year. In Saudi Arabia and Kuwait, severe shortages of manpower and infrastructural bottle-necks impeded progress somewhat. In the fact of rising imports, Indonesia tightened restraints on imports of non-essential goods and curbed purchases of capital goods, which accounted for about 50 per cent of total imports. Benefiting from export earnings, manufacturing output accelerated in Algeria, Gabon, the Libyan Arab Jamahiriya and Nigeria - the four major petroleum-exporting countries in Africa.

In several African countries - Egypt, Ghana, Ivory Coast, Kenya and the United Republic of Cameroon - there was considerable improvement in the rates of growth of manufacturing output. On the other hand, real growth in manufacturing output decelerated in 1977 in Ethiopia, Liberia, Morocco, the Sudan and Tunisia.

Growth in the mining sector

With all major industrial sectors showing a decline in their activity in 1977, the deceleration in growth rates was most pronounced in the mining sector. This trend stands in sharp contrast to the performance of mining in 1976 when, growing faster than total manufacturing production, it was the main source of industrial expansion in the developing countries. In 1977, all of the main components of the mining sector showed significant reductions in their growth rates compared with the previous year.

Energy

The characteristic feature of 1977 - a large deceleration in industrial growth rates in the developing countries - vividly manifested itself in crude petroleum production. High stocks in industrial countries and a resultant slackening of world demand for oil led to lower growth in 1977.

In that year, production expanded in Africa and the western hemisphere but declined slightly in West Asia. The decline occurred because of a reduction in oil production in the West Asian OPEC countries by 0.7 per cent from a growth of 13.4 per cent recorded in 1976. Among the OPEC countries in that area, only Saudi Arabia and the United Arab Emirates increased their petroleum production; however, their growth represented a sharp decline from the growth rate recorded in 1976. On the other hand, major producers such as Iran, Iraq and Kuwait lowered their production volumes. Sizable reductions in output also occurred in Qatar and Oman.

In contrast, South and East Asia recorded an increase in oil production in 1977 by 9.5 per cent. This rate, however, represented a sharp decline from the 13.9 per cent rate of increase recorded in 1976. This decline was largely the result of a slowdown in petroleum output of most of the producing countries in the area including Burma, Malaysia and Indonesia, the three largest suppliers in that area, and a reduction in the output of Brunei. On the other hand, the higher growth rates of petroleum output recorded in India (7.8 per cent) and Pakistan (57 per cent) could not influence the over-all growth rate for that subregion because of their small share in its total output.

In Africa, despite reductions registered for 1977 in Algeria, the third largest producer in the area, and in smaller suppliers such as Gabon and the Congo, total crude oil production rose by 5.3 per cent in 1977 due to large production gains in Angola (32 per cent), Egypt (18.1 per cent), the Libyan Arab Jamahiriya (32 per cent), Tunisia (17.1 per cent) and Zaire (18.4 per cent). Only a modest increase was recorded in Nigeria, the largest petroleum producer in that region. The growth rate of the region, however, represented a sharp drop from the 17.2 per cent rate recorded in 1976.

In 1977, production of crude oil in the western hemisphere increased by 2.7 per cent, having been stagnant the year before. A greater output was achieved in that year as a result of production gains in some of the relatively smaller oil producers such as Mexico (16.2 per cent), Trinidad and Tobago (7.8 per cent), Argentina (7.9 per cent) and Peru (6.3 per cent). Venezuela, the largest producer in the region, reduced its production by 2.5 per cent. Reductions were also recorded in some other countries such as Brazil, Ecuador and Bolivia and production was virtually stagnant in Colombia.

Against this background of various production cutbacks in many of the major OPEC countries and the general slowdowns mentioned above, a remarkable feature of 1977 was a sizable increase in crude oil output in some of the oil-importing developing countries. This improvement came as a result of a conscious effort on their part to reduce their heavy dependence on costly imported oil supplies, with a view to alleviating their foreign exchange problems.

Production of coal in the developing countries decreased in 1977 in comparison with 1976 by 10.6 per cent. In Africa, the over-all decline was caused by a substantial drop in output in the two major producers in the region, Zambia (33.7 per cent) and Morocco (12.8 per cent), whose combined production provides nearly 80 per cent of Africa's output. In Asia, small increases in coal production in Indonesia and the Philippines were negated by cutbacks in India leading to a general drop in the region's total. The western hemisphere also showed a sizable decline in coal production in 1977 due to a sharp drop in Argentina's output (24.8 per cent), which negated smaller increases such as the one recorded in Chile (2.6 per cent)

Metallic minerals

Copper ore production in the developing countries continued to grow in 1977 but at a much slower pace. Nearly 80 per cent of the total increase that occurred in 1977 was accounted for by Chile, with India and the Philippines providing the rest. High world prices for copper spurred production increases but eventually resulted in over-supplies that led to a fall in prices; this fall became pronounced in the second quarter of 1977 and prompted a significant slowdown in output. A sharp decrease in the growth of production in Chile from 22 per cent in 1976 to 5.1 per cent in 1977 caused a general decline in the growth rates of copper-producing countries from 17.3 per cent in 1976 to 4.7 per cent in 1977. In addition to the drop in world prices, another reason for the cutbacks in Chile's copper ore production in 1977 was a government policy that aimed at the concentration of production through a financial squeeze of small- and medium-sized copper mines which contributed 15 per cent of the previous year's production.

Owing to a substantial fall in the price of zinc, the output of zinc ore in 1977 was practically stagnant in Mexico, the largest producer among the developing countries; in Argentina and India output declined. On the other hand, under the impact of rising prices of some of the non-ferrous base metals (e.g., tin and lead), production of tin concentrates in Indonesia, Malaysia and Thailand rose and the output of lead ore in both India and the Republic of Korea picked up during the year. Mexico, which is the largest supplier of lead ore among the developing countries, was, however, slow to react to the more favourable world prices for lead and thus its output of lead ore remained virtually stagnant in 1977.

In 1977 production of iron ore in the developing countries declined, as it did in 1976 under the impact of stagnation in the steel industry of the developed market economies. This decline resulted from the net effect of two opposite trends in production dynamics - on the one hand, a sharp growth that was recorded in Africa and Asia and, on the other, a sharp reduction in output that occurred in the western hemisphere.

In Africa, growth of iron ore was most pronounced in Egypt (37.7 per cent) and Morocco (34.0 per cent) while Tunisia and some other countries reduced their production levels. Owing to high growth rates in 1977 in the above-mentioned countries, Africa showed strong recovery from the down-swing in iron ore production in 1976. Major Asian producers of iron ore also expanded their output in 1977, although at a slower pace as compared with 1976, with India providing 96 per cent of the increase. While output increments in Africa and Asia were sizable enough by the past standards of the countries in those two regions, nevertheless these increments could not compensate for the substantial drop in production that occurred in Latin American countries - in Brazil (18 per cent), Chile (17 per cent), Colombia (21 per cent) and Mexico (6.3 per cent).

Domestic prices; employment

Recent changes in domestic price levels

Preliminary figures for 1977 indicate that, compared with 1976, the rate of change of consumer prices decelerated only slightly in developing countries as a group - from 15.3 per cent in 1976 to 15.0 per cent in 1977 for the oil-exporting developing countries and from 32.5 per cent to 30.5 per cent for the non-oil-exporting countries. In the non-oil-exporting countries of the western hemisphere, the inflation rate for 1977 decelerated markedly - 49.6 per cent, compared with 62.5 per cent for 1976. The high rates of inflation in Chile and Argentina in 1976 were drastically reduced by more than one half in both countries during 1977; this more than outweighed the acceleration in other countries.

In the non-oil-exporting countries of South and East Asia, the acceleration in the inflation rate discernible towards the end of 1976 continued in 1977 when a rate of 8.0 per cent was recorded compared with a negative rate of -0.8 for 1976. In the non-oil-exporting countries of West Asia, the inflation rate accelerated during the first 10 months of 1977 compared with the corresponding period of 1976.

In the non-oil-exporting African countries, data for the first nine months of 1977 indicate that the inflation rate, at 20.8 per cent, accelerated slightly compared with the corresponding period of 1976.

The slight decline in per capita food production in developing countries in 1977 affected consumer prices adversely. Preliminary data indicate that the prices of commodities purchased by the developing countries on the world market also exerted an upward pressure on domestic prices. The index of the unit value of imports expressed in dollar terms rose by about 15 per cent during the first three quarters of 1977 compared with 1976. The rise was only 0.9 per cent in 1976 compared with 1975. Rising prices of manufactured imports contributed to these inflationary pressures; the unit value index of exports of manufactures from the developed market economy countries rose by about 9 per cent in 1977 compared with 1976. The rise in 1976 was only 0.6 per cent.

The continued expansion of the money supply in most developing countries exacerbated inflationary pressures in these countries in 1977. During the first three quarters of 1977, the growth of the money supply decelerated slightly in the oil-exporting countries and in the western hemisphere but accelerated in East and South Asia and Africa.

In about 56 per cent of the countries, the increase in the monetary aggregates in 1977 exceeded 20 per cent. Comparing the trend in 1977 with that in 1976, it is seen that about 35 per cent of the developing countries experienced an acceleration in the growth in money supply. Most of the countries in which the expansion of money supply accelerated also had rates of growth of money supply of over 20 per cent.

Though the extension of credit to the private sector was the leading expansionary force in both 1976 and 1977, its dominance was reduced in 1977; it accounted for the largest contribution in 49 per cent of the countries in 1977 as against 56 per cent in 1976. On the other hand, the proportion of countries in which government net borrowing was an expansionary factor declined from 76 per cent in 1976 to 64 per cent in 1977, since many Governments took steps to reduce budgetary deficits during the year. In 1977 the increase in net foreign assets emerged as the leading expansionary factor in 26 per cent of the countries compared with 22 per cent in 1976 (see table I-5).

The continuation in the first half of 1977 of an improvement in world market prices of many of the commodities exported by developing countries increased the liquidity of the export sector in various countries. The inflow of loans, credits and grants also increased the external liquidity of several countries. The countries in which the increase in net foreign assets was the principal factor in the accelerated growth in money supply in 1977 included, in addition to some of the petroleum-exporting developing countries (Indonesia, Iran, Iraq, Kuwait, the Libyan Arab Jamahiriya and Trinidad and Tobago), Afghanistan, Burundi, Colombia, Costa Rica, Guatemala, Jordan, Kenya, Malawi, Paraguay, Rwanda, Samoa, Sri Lanka, the United Republic of Tanzania and Yemen.

Considering the unweighted number of countries in which the change in consumer prices did show an improvement, the inflationary situation worsened in 1977 compared with 1976. Only about 42 per cent of the countries included in table I-6 had an inflation rate of less than 10 per cent in 1977 compared with about 54 per cent for the preceding year.

The behaviour of retail food prices had an appreciable effect on both the rate and the direction of change in consumer prices in developing countries in 1977. While retail food prices lagged behind the price of all items in the consumer price index in 60 per cent of the countries in 1976, the proportion was about 35 per cent in 1977. Also, only about 28 per cent of the countries recorded a deceleration or decline in these rates in 1977 as against about 73 per cent of the countries in 1976. Meanwhile, the rates accelerated in around 70 per cent of the countries, compared with around 23 per cent of the countries in 1976 (see table I-7). The above figures show not only that in 1977 food shortages contributed to inflationary pressures in developing countries as a group but also that food prices accelerated in the majority of them.

For many developing countries, the rate of inflation prevailing during the last quarter of 1976 continued or worsened during the first half of 1977. This was due to a variety of reasons, such as the recurrence of domestic food shortages because of weather hazards or transport difficulties, the slowing down of import growth, expansion in the money supply, wage increases and budgetary increases.

Countries in which the rate of inflation accelerated during the first nine months of 1977 included Bangladesh, Brazil, Colombia, Ghana, India, Jordan, Mexico, Nepal and Uruguay. Rapid increases in food prices were the leading factor in the acceleration of consumer price increases in most of these countries.

Countries in which the inflation rate decelerated rapidly during the first nine months of 1977 included Argentina, Burma, Chile, Ethiopia, Indonesia, Sierra Leone and Somalia. Moderate food price increases contributed significantly to the deceleration.

Owing largely to moderate increases in food prices, some countries were able to keep the rate of inflation below 10 per cent in 1977 for the second consecutive year. These countries included Costa Rica, Malawi, Malaysia, Pakistan, Sri Lanka, Tunisia and the United Republic of Tanzania (see table I-6).

Capacity utilization and employment

Factors that led to the underutilization of industrial capacity in developing countries in 1977 included the scarcity of foreign exchange for importing needed inputs, shortages of domestic inputs, transportation difficulties, a fall in domestic activity and protectionist measures abroad.

In the case of the predominantly export-oriented economies such as Hong Kong, the Republic of Korea and Singapore, curbs on imports of textiles, clothing, foot-wear and consumer electronics by industrialized countries were a major factor leading to the prevalence of idle industrial capacities. In Algeria, shortages of building materials caused bottle-necks in the construction sector, while in India, shortages of raw jute forced the jute mills to reduce production and to operate below capacity during 1977. In Venezuela, a drop in the sugar harvest due to inclement weather was reported to have led to idle capacity in sugar refining. Deflationary measures introduced by the Government of Brazil in 1976 and early 1977 affected capacity utilization in some industries such as those manufacturing motor vehicles and electrical goods during the first half of 1977.

In the United Republic of Tanzania, infrastructural problems and workhours lost through absenteeism affected capacity utilization in some manufacturing industries early in 1977. In Peru, a recession hit some industries such as vehicle assembly and textiles during the early months of 1977 and companies cut back production. In Zambia, shortages of spare parts and components caused by foreign-exchange and trade-route problems caused capacity to be underutilized in the mining sector and in vehicle assembly plants. Difficulty with the recruitment and retention of skilled expatriate workers also caused mining capacity to be underutilized. Lack of spare parts and motor fuel in Zaire was reported to have contributed to the decline in copper production in 1977.

In Jamaica, during the first half of the year, the drastic restrictions on imports that were introduced early in the year adversely affected capacity utilization in domestic manufacturing, because of its high import content. This was also the case in Guyana where drastic import restrictions affected manufacturing production during the first half of 1977.

During 1977 there was no improvement in the high levels of unemployment and underemployment prevalent in most developing countries; rather, the situation worsened in many of them. The coexistence of shortages of skilled workers with high levels of unemployment persisted; some countries began to offer incentives to their nationals working abroad to return home. Thus, in Algeria the Government offered incentives to migrant workers in France to return to their homeland. Places for technicians at the country's universities and technical institutes were also rapidly increased.

Steps taken to correct internal imbalances

The policy mix adopted by Governments to combat inflationary pressures depended upon the most important factors contributing to the inflationary situation in each country. Where food shortages bedevilled the fight against inflation in 1977, many Governments initiated policy measures for increasing the availability of food through either domestic production or imports. To stimulate domestic production of food, some countries granted farmers easier credit or larger subsidies and others increased the availability of agricultural inputs to their farmers. In 1977 a number of countries liberalized imports not only of food items but also of essential commodities, spare parts and industrial inputs in order to reduce shortages of these goods.

To stabilize the prices of essential commodities, some Governments subsidized their prices and others maintained price controls. To stabilize the prices of consumption goods in short supply, some Governments also set up bodies which were made responsible for the supply and distribution of such goods. Governments that issued incomes and price guidelines as part of their anti-inflationary measures included Argentina, Brazil, Ghana, Jamaica, Malaysia and Mexico.

Anti-inflationary measures affecting the money supply that were taken by various developing countries included the reduction in the expansion of deficits of the public sector, the restriction of credit to the private sector and the mopping up of excessive foreign-exchange inflows. While the adoption of such measures contributed to a deceleration in the rate of inflation in some countries, in others either the measures were counterbalanced by the effects of other factors, such as food shortages and increases in prices, or the measures themselves were too inadequate to be effective.

In 1977, many Governments took steps to reduce the deficits of the public sector in the face of inflationary pressures. The proportion of countries in which a reduction in official borrowing was the leading factor in the contraction of money supply increased from 22 per cent in 1976 to about 32 per cent in 1977 (see table I-5). The countries included Afghanistan, Colombia, Ecuador, El Salvador, Guatemala, Indonesia, Iraq, Ivory Coast, Kenya, Liberia, Malawi, Paraguay, the Republic of Korea, Rwanda, Samoa, Singapore, Somalia, Sri Lanka, Trinidad and Tobago, the United Republic of Cameroon, the Upper Volta and Yemen.

Countries that restricted credit to the private sector during 1977 included Afghanistan, the Bahamas, Guyana, Jamaica and Mauritius.

In various countries such as Brazil, Colombia and the Philippines, the Government took steps to reduce the pressure exerted on domestic prices by an increase in net foreign assets. In Brazil, export taxes on key commodities, such as coffee and soya beans, were altered rapidly in response to international price changes as a means of reducing inflationary pressures in the domestic market. To freeze a large volume of foreign exchange, the Government of Colombia introduced an export tax of 17 per cent on coffee and imposed controls on the sale of foreign exchanges, as from April, and reduced the inflow of foreign loans to the private and public sectors. In addition, the Government required almost all sales of exchange by banks to be registered with a government agency; such sales were subject to a 15 per cent official discount whenever they were negotiated immediately for pesos.

External trade and payments

Trends in external trade

In 1977, the aggregate balance of trade of the developing countries showed a surplus of about $36 billion, which was slightly lower than the surplus recorded in the preceding year (see table I-8). The non-oil-exporting countries improved their balance of trade since their deficit dropped by almost $6 billion. This was largely accounted for by an improvement in their terms of trade. The reduction in the trade deficit of these countries was, however, offset by a larger drop in the trade surplus of the oil-exporting countries, where imports increased more rapidly than exports.

Among the regional groups of non-oil-exporting countries, the most significant improvement in the balance of trade took place in the western hemisphere where the deficit for 1977 dropped by over $6 billion from the level registered in 1976. A smaller decline in deficit, of over $1 billion, was also recorded in Africa. In South and East Asia, the deficit remained at the level of the previous year. On the other hand, a deterioration in trade balance was registered in West Asia where the deficit increased by over $2 billion during 1977.

The total export earnings of the developing countries as a whole increased by 15 per cent during 1977, marking a slowdown from the increase of 22 per cent registered a year earlier. The value of imports accelerated to 18 per cent in 1977, compared to an increase of 10 per cent in 1976. Only the oil-exporting countries were affected by the lower increase in export earnings in 1977. The non-oil-exporting countries as a group maintained the growth of their export earnings at 21 per cent in both 1976 and 1977.

The slowdown in the growth of export earnings of developing countries during 1977 was accounted for by a sharp deceleration in export volume. On the other hand, the average export price increased by almost 13 per cent for all commodities including oil - by about 18 per cent if oil is excluded. For the non-oil-exporting countries, however, the deceleration in the volume of exports was not quite as severe as for the oil-exporting countries and the average price of their exports also rose more strongly (see introduction, table 4).

The volume of imports into the non-oil-exporting countries rose as little as about 3.1 per cent in 1977, a rise only slightly greater than the rise of 1.8 per cent in 1976. Among the oil-exporting countries, the volume of imports maintained a very high rate of increase.

Prices of many commodities rose sharply early in the year but a decline was set early in May. By October, the general price index for all commodities was almost back to its January level. Some recovery in commodity prices appears to have taken place during the last two months of the year.

Meantime, discussions on the stabilization of commodity prices have continued in various international forums during 1977; however, progress in actual negotiations for a Common Fund has been slow. Early in June, the Conference on International Economic Co-operation had agreed that a Common Fund should be established as an important instrument for achieving the objectives of the Integrated Programme for Commodities. Subsequently, the United Nations Negotiating

Conference on a Common Fund was convened for the second time during the year but its work was inconclusive and negotiations were suspended. In December, the fourth session of the Ad Hoc Intergovernmental Committee for the Integrated Programme for Commodities met to review the progress made under UNCTAD resolution 93 (IV). However, as the preparatory work on the individual commodities could not be completed within the time-limit of this resolution, the Committee decided to recommend the rescheduling of the meetings during the rest of 1978.

Uncertainties on the world market continued, therefore, to affect the prices of most commodities in different directions throughout 1977. Despite the fluctuations in commodity prices, the increase in the average price for the year as a whole led to a substantial contribution to export earnings even though the advance in the volume of export remained slow. The increase in the import bill, despite its acceleration as the year progressed, was not large enough to cause a serious worsening in the balance-of-trade position of developing countries taken as a whole. For the non-oil-exporting developing countries alone, relative price developments were favourable during the year and these were reflected in a considerable improvement in their balance of trade.

Current account, capital flows and external debt

Current account balance

The current account balance of the developing countries appears to have been characterized by a decline in the surplus of the major oil-exporting countries and a marginal decline in the deficits of the non-oil-exporting developing countries in 1977 compared to the balances recorded in 1976 (see table I-9). According to projections by the International Monetary Fund, the current account surplus of the oil-exporting countries is expected to decline to $37 billion in 1977 from $41 billion in 1976. In the non-oil-exporting developing countries, the aggregate current account deficit, which had reached a record level of $38 billion in 1975, declined sharply to $26 billion in 1976 and a marginal decline to $25 billion is expected for 1977. The improvement in the current account balance of the latter group of countries was the result of a substantial reduction in their trade deficits which offset the increases in the deficits on services and private transfers.

The bulk of surplus which accrued to oil-exporting countries of low absorptive capacity was directed to various uses through the financial intermediaries of the developed countries. More than two thirds of the current account surplus of oil-exporting countries was recycled to finance the deficit of oil-importing developing countries. The role of the industrial countries was no longer the provision of net real resources through national savings but rather the placement of surpluses obtained from oil-exporting countries in international financial markets from which oil-importing developing countries borrowed to finance their current account deficits.

The surpluses of the oil-exporting countries were increasingly placed in less liquid forms than in earlier years. Thus, in 1976 and 1977 placement in the Euro-currency market and in short-term government securities accounted for only one quarter of the available surplus of oil-exporting countries, compared to about two thirds in 1974. By contrast, the proportion of these funds going to longer-term investments in the developing countries rose from one fifth in 1974 to one half in 1976 and 1977, while grants and loans reached one seventh of the total.

In the non-oil-exporting developing countries, the current account deficit registered in 1976 was about three times as large as in the 1960s and early 1970s, in nominal terms. However, in real terms the deficit in 1976 was of an order of magnitude similar to that of the average for the period 1967-1972. The apparent increase in the deficits as well as in the means to finance them was, therefore, largely a reflection of the high rate of inflation in the world economy in recent years.

The improvement in the current account of the balance of payments of non-oil-exporting developing countries in recent years has varied among regions. It appears that the current account deficit decreased substantially in the countries of the western hemisphere and of South and East Asia. A modest improvement was probably recorded in Africa; but in West Asia the deficit remained unchanged.

The combined current account deficit of the western hemisphere region fell from the record deficit of $16.3 billion in 1975 to $11.2 billion in 1976 and was further reduced to an estimated $7.2 billion for 1977 (see table I-9). Among the factors that brought about the positive trend were programmes of restraint that slowed down the rate of increase of imports, improved prices for export commodities in 1976 and early 1977 associated with the moderate recovery in some industrial countries, and flexibility in exchange-rate policies. A few major countries led by Brazil and Mexico accounted for the improvement in the region's balance-of-payment situation. Most of the reduction in the current account deficit, it should be noted, occurred in the first half of 1977.

Several of the African countries were relatively slow in carrying out measures to adjust their balance-of-payments position. There was, however, probably a moderate improvement in their combined current account deficit. The mineral-exporting countries, particularly Zambia and Zaire, experienced serious deterioration in their current account situation in 1976 and 1977. The price of copper has been declining in recent years except for a short-lived period of recovery in 1976. On the other hand African countries that export agricultural commodities, such as Ivory Coast, Kenya and the United Republic of Tanzania, appear to have recorded a substantial improvement in their trade and current account balances in 1976 and 1977, due primarily to the recovery in their export prices during most of that period. Egypt achieved some reduction in its current account deficits between those two years, largely through balance-of-payments adjustments and a rise in net invisible exports. Ghana, on the other hand, appears to have recorded a large current account deficit in 1977 for the fourth year running as a result of the net services and transfer outflows which offset the trade surplus attributed to the rise in cocoa prices.

The non-oil-exporting countries of West Asia appear to have recorded a deterioration in the current account position in 1977 after containing their deficit at an unchanged level the year before. Several countries in the region continued to face internal and external imbalances arising from a delay in the implementation of stabilization programmes. No major difficulties, however, were encountered in financing the deficits since substantial flows of external assistance were made available to these countries.

The current account deficit in South and East Asia is estimated to have risen in 1977. Despite the increase, the combined deficit of the region for 1977 amounted to less than half of the deficit recorded in 1975. The over-all improvement in the balance-of-payments situation of this region between 1975 and 1976, which was mainly attributable to India, resulted from a combination of factors which included, inter alia, the implementation of policies of financial restraint, the reduction in food imports due to improved agricultural production resulting from favourable weather conditions and the revival of export earnings coinciding with the cyclical recovery of some industrial countries.

Financing the deficits

Financing the sharply reduced current account deficit of the non-oil-exporting developing countries was accommodated in 1976 and 1977, within the limits of the funds made available by private banks and multilateral financial institutions. Some of the middle-income non-oil-exporting developing countries (with per capita income exceeding $265 in 1975) were able to secure loans from private and public sources as well as credits from the International Monetary Fund. Other developing countries have continued to encounter financing problems. In particular, the low-income developing countries, which have virtually no access to international credit markets, have depended almost exclusively on IMF credit, provided as balance-of-payments assistance, and on soft loans and grants made available for financing long-term projects and programmes (see table I-10).

During the earlier period, from 1973 to 1975, an upsurge in the current account deficit led to a rapid increase in the external borrowing of the developing countries. However, as the current account position of these countries subsequently improved, external borrowing continued beyond the level that was necessary to finance the deficit. Thus, in 1976 non-oil-exporting developing countries had been able to replenish their international reserves by some $11 billion and in 1977 they increased their reserves by a further $9 billion.

The middle-income developing countries continued to borrow heavily on the international financial markets. Thus their share of total Euro-currency market borrowing stood at over 35 per cent in 1976, a little lower than in 1975 (see table I-11). In both 1976 and 1977, the level of borrowing by these countries is estimated to have reached $10 billion.

The low-income developing countries have so far depended on the flow of ODA at concessional terms, not only for the implementation of their development projects but also for financing part of their year-to-year current account deficits. Progress in the expansion of official development aid to developing countries, however, has not been encouraging. During 1976, the flow of ODA to developing countries from countries members of the Development Assistance Committee (DAC) and of the Organisation for Economic Co-operation and Development (OECD) amounted to $13.4 billion and showed virtually no change from the level recorded in 1975 (see table I-10). If the rate of inflation is taken into account, it becomes evident that the flow of that assistance to the developing countries in real terms actually declined in 1976. At 0.33 per cent of the combined GNP of donor countries, the flow of ODA from countries members of OECD remained not only less than one half of the International Development Strategy target of 0.7 per cent but also represented a decline from the level of 0.36 per cent recorded in 1975. By the end of 1976, only three countries - the Netherlands, Norway and Sweden - achieved or exceeded the International Development Strategy target for ODA. By contrast, the ODA/GNP ratio for the oil-exporting countries, despite a decrease in 1976, remained above 2 per cent, considerably higher than the International Development Strategy target. While the available data on official aid for 1977 are not complete, preliminary estimates indicate that the increase in the flow of these resources was marginal, ranging from only $0.5 billion to $1 billion.

The total flow of resources from OECD to developing countries, which in addition to ODA includes direct and portfolio investments, export credits extended by official and private institutions and grants by private institutions, declined marginally to $37.6 billion in 1976. As a ratio to OECD member countries' GNP, the total net flow of resources to developing countries (including some higher-income Mediterranean countries) declined from 1.05 per cent in 1975 to 0.97 per cent in 1976. For 1977, the ratio is expected to remain at the 1976 level. Thus it appears that for the total flow of resources, the International Development Strategy target of 1 per cent of GNP has more or less been achieved by the member countries of OECD.

Net disbursements by members of the Organization of Petroleum Exporting Countries to developing countries amounted to $8.0 billion in 1976 compared to the record level of $8.2 billion reached a year earlier. As a ratio to GNP, however, net disbursements from OPEC member countries far exceeded the international target. As to the transfer of resources from the socialist countries, the available information is not complete. According to OECD sources, however, it appears that the flow of resources from those countries has remained less than $1 billion per year.

Official support to the non-oil-exporting developing countries by the International Monetary Fund has played an important role in recent years. Net drawings steadily increased from SDR 1.3 billion in 1974 to over SDR 1.9 billion in 1976. The recent trend, however, was sharply reversed in 1977 when net drawings were replaced by a net repayment of SDR 0.3 billion (see table I-12). Gross drawings dropped sharply to SDR 0.7 billion in 1977 compared to SDR 2.7 billion recorded during 1976; and these drawings were accompanied by a record volume of repayment by repurchase amounting to about SDR 1 billion in 1977 as against less than SDR 0.8 billion in 1976. The net repayment was entirely the result of a record net repayment to IMF by India.

Disbursement to the developing countries of the proceeds of IMF's gold sales continued in 1977. By the end of the year, the equivalent of SDR 152.2 million had been paid out to 36 eligible developing countries. With the termination of the oil facility in May 1976, the IMF member countries have also agreed to establish a supplementary facility for providing financial assistance to countries with large payment imbalances. In 1977, 13 IMF member countries and the Swiss National Bank expressed their willingness to lend a total of SDR 8.7 billion to IMF for the purpose of financing that facility.

External debt and debt service

In the past several years there have been significant changes in the size and structure of developing countries' outstanding external debt. The most important development in this respect has been the rapid build-up of the external debts of the non-oil-exporting countries. Following the upsurge in the price of oil and other imports, the total disbursed debt of these countries increased at an average annual rate of about 27 per cent between 1973 and 1975. During 1976, a further increase of 19 per cent was recorded, raising their outstanding disbursed debt to over $150 billion (see table I-13). For 1977, preliminary estimates suggest that the rate of increase may have again decelerated.

The oil-exporting countries also continued to borrow abroad but their debt increased at a slower pace than that of the other developing countries. Thus, between 1973 and 1976, the external debts of the oil-exporting countries increased at less than 16 per cent per annum compared with a rate of about 22 per cent per annum in the period 1967-1973.

A large part of the increase in debt of the non-oil-exporting countries during recent years has been accounted for by the middle-income developing countries - countries whose income per capita in 1975 amounted to more than $265. Outstanding debt of these countries more than doubled between 1973 and 1976, amounting to $119 billion in 1976. By contrast, the low-income developing countries (having a per capita income of $265 or less) recorded a moderate increase of about 14 per cent per year.

Another change during this period was the rapid increase in debts at market terms relative to debts at concessional terms. The share of outstanding debt at market terms rose from 27 per cent in 1973 to 36 per cent in 1976 but the share of debts at concessional terms (including ODA) declined from 34 per cent to 27 per cent.

Because of the change in debt structures as well as the ending of the grace period on many debts acquired in the 1960s, total debt-service payments have recently been increasing at a faster rate than outstanding debt. Debt-service payments for developing countries as a whole increased at 25 per cent a year between 1973 and 1976 to reach $28 billion. For the non-oil-exporting developing countries, payments on account of debt service in 1976 amounted to almost $22 billion, which was equal to about one fifth of their combined export earnings or more than three fourths of their trade deficits in that year.

The middle-income non-oil-exporting developing countries accounted for the bulk of the debt-service payments because of their large share of debts at market terms. The oil-exporting countries also had to meet rapidly rising debt-service payments. The combined share of these two groups in the total debt-service payments of developing countries rose from 90 per cent in 1973 to 92 per cent in 1976. There was a corresponding decline in the share of the low-income countries, reflecting the fall in their share of the developing countries' total outstanding debt and their increasing share of concessional aid. The debt-service payments of the low-income countries rose by less than $1 billion during the period 1973-1976, although their total outstanding debt rose from $21 billion to $31 billion over the same period. However, it should be noted that, at a level of $2.3 billion, the debt-service payments of these countries none the less amounted to the equivalent of 18 per cent of their exports in 1976. It is, in fact, in recognition of the relatively high burden of debt service of the low-income countries that the Trade and Development Board of the United Nations Conference on Trade and Development, at its special session in March 1978, agreed, in principle, to a retroactive adjustment of the terms of official debt which would enable these countries to increase imports necessary for enlarging their development programmes.

Public debts originating from private sources have grown at a more rapid pace than debts raised from official sources. During the period 1973-1976, the annual rates of increase recorded were 26.8 per cent for debts owed to private sources and 15.7 per cent for those obtained from official sources. Thus, the share of debts owed to official creditors in total outstanding disbursed debts of developing countries declined from 55 per cent in 1973 to 48 per cent in 1976.

The build-up of private syndicated loans to developing countries had slowed down during the first half of 1977 and began to pick up only in the third quarter of the year. The principal borrowers during the year were Brazil, Mexico, Morocco and the Republic of Korea and four oil-exporting countries, namely, Algeria, Ecuador, Venezuela and Iran. These countries, together with Argentina, Chile, Colombia, Peru, the Philippines and Thailand, account for about three fourths of the debt owed to foreign banks by the developing countries.

The use of bonds to raise international long-term loans has also been increasing steadily in recent years, though by 1977 this source of funds still constituted only about 20 per cent of the total loans obtained by the developing countries from private international money markets. Brazil and Mexico, which have hitherto floated bonds in their traditional United States market, secured access during 1977 to the newly expanding Japanese capital market.

Recently, Governments of the lending countries have expressed some concern regarding the risks of default of foreign borrowers and the consequences to the international banking system. The exposure to additional risks of default of debtors has also been pointed out by the United States Government in relation to unguaranteed oversea loans. 20/ It was estimated that the United States banks had, by the end of 1977, about $38 billion of such unguaranteed loans outstanding to developing countries and that more than half of these loans were short-term credits with maturities of one year or less. In an attempt to reduce the risks of oversea lending, the United States Government has proposed a formal interpretation of the law that limits lending by national banks to foreign Governments and their agencies to a maximum of 10 per cent of the total capital of each lending bank to any single borrower. The proposed interpretation would establish a test to determine whether each agency should be treated as a separate borrower or as part of the central Government. It is difficult to predict whether the eventual implementation of the new interpretation would seriously affect developing countries that borrow heavily from United States banks. The risk of default by oversea borrowers has not been as great as has been sometimes imagined in recent years. In fact, only about half a dozen developing countries have so far been in serious debt-servicing difficulties.

However, the fear that some developing countries have accumulated external debts which would be difficult to service has not been completely removed. The debt-service ratio, 21/ which is often used as an indicator of the capacity of the debtor countries to meet their contractual obligation, reached approximately 10 per cent during the period 1973-1976 for the developing countries as a whole. For individual countries, however, there have been wide variations. Between 1973 and 1975 debt-service ratios rose rapidly in several developing countries, including Argentina, Brazil, Central African Empire, Chile, Mauritania, Mexico, Pakistan, Sri Lanka, the Sudan, Uganda, Uruguay and Zaire. But as export earnings improved in 1976 and 1977, the debt-service ratios of most of these countries showed a subsequent decline. For India and the Republic of Korea, the debt-service ratios have declined steadily since 1972.

20/ They are so designated because risks are not assumed by a credit-worthy agency in one of the leading industrial countries.

21/ The debt-service ratio is generally defined as the total repayments of principal and payments of interest on external debt as a percentage of exports of goods and non-factor services.

The limitations of a single indicator like the debt-service ratio should, however, be borne in mind. First, comparisons of single years may be misleading in view of the lumping of debts in some years as well as the fluctuations in export earnings. Secondly, and perhaps more importantly, the debt-service ratio may not be adequate for a comparison of the debt-servicing capacities of different countries. Indeed, there are several countries in the western hemisphere and East Asia whose debt-servicing capacity has not been questioned despite their high debt-service ratio. On the other hand, some low-income countries with a relatively low debt-service ratio have in some years been unable to meet their debt-repayment commitments. Therefore it is the state of economic performance and the art of management of debt that appear to determine ultimately the credit-worthiness of individual countries.

Developing countries, as a group, have recently proposed a new definition for the problem of external indebtedness. According to the proposal, the concept of the prevalence of a debt problem, which had until then been linked to the likelihood of default, would be replaced by a broader definition that would identify the existence of a serious debt problem whenever the servicing of such debt infringed on the country's capacity to ensure imports essential for development. The proposed definition would place no less than 45 least developed and most seriously affected countries among the group facing debt-servicing difficulties.

The need for a selective approach to the issue of indebtedness based on the level of income of the developing country involved has gained support in various international forums in recent years. For the least developed countries and those countries that have been most seriously affected by adverse economic conditions, the objective would be to increase the net flow of official development assistance and to grant a relief on official debts. On the other hand, the proposals for the higher-income developing countries that have been made in those forums have focused on the need for action towards the improvement in the structure of debt, including the provision of official refinancing facilities and greater access to international markets for long-term capital.

The outlook for 1978

Aside from the great diversity in conditions among the developing countries and the multiplicity of factors affecting their economies, the uncertainties surrounding present world economic prospects make it difficult to assess with any accuracy the economic outlook of these countries. Nevertheless, a number of indications suggest that the realization in the current year of a growth rate comparable to that of 1977 is unlikely. Rather, some slowdown in growth is in prospect for 1978. For some countries, the export-led growth of the recent past has lost momentum in the face of sluggish world growth; for many countries, the uncertain export outlook will dictate continued restraint on imports in view of their external debt obligations and their need to protect their balance of payments.

The outlook for the different economic sectors shows some variation. In agriculture, barring any unforeseen major crop failures, the outlook for 1978 is mostly favourable. Production increases are forecast for wheat and coarse grains, coffee, cocoa, tea, natural rubber and jute; however, the outlook for sugar and cotton is mixed. With the exception of some West Asian and North African countries, wheat and grain crops have benefited from generally favourable winter weather conditions. In Brazil, however, a falling maize crop is forecast. Prospects for the paddy crops appear to be satisfactory in Argentina, Colombia, Indonesia, Peru and Sri Lanka but slightly less good in Brazil and poor in Malaysia and Thailand, due to drought.

Industrial production including mining is likely to grow at about the 1977 rate or slightly below. Manufacturing is expected to maintain its lead over mining, while some export industries such as textiles which are affected by protectionist measures will probably grow only marginally, if at all.

The external balance of the developing countries is projected to worsen in 1978. The improvement in the balance of payments of these countries in the last couple of years seems to have temporarily come to an end. In contrast to the recent decline in the size of their current account deficit, the non-oil developing countries are expected to incur in 1978 a deficit several billion dollars greater than that of 1977.

The projected deterioration in the external balance of the developing countries is the expected consequence of a declining export growth and a slight loss in terms of trade. Exports of major commodities will probably grow at a very moderate rate. Some of the larger non-oil developing countries that made substantial progress in restoring a sustainable external balance are expected gradually to relax their restrictive import measures. The performance of the different regions in respect of their external balances will be varied. The western hemisphere, Africa and the countries of West Asia that are not members of OPEC are expected to experience increased deficits.

While a large part of the current account deficit of the non-oil-exporting developing countries will continue to be financed by capital inflow, several of these countries are expected to find it necessary to draw on their international currency reserves to finance part of their external deficits. The combined net reserve holdings of these countries may, therefore, show only a marginal increase in 1978 in contrast to the reserve build-up that took place in 1976 and 1977. Some individual developing countries in the western hemisphere and in Africa will require additional credits from private and official sources in order to meet rising deficits on current account of their balance of payments. Part of their short-term obligations may also have to be rescheduled as they fall due. The IMF Supplementary Financing Facility may, if it becomes operational in time, provide additional balance-of-payment support from its $10 billion fund. Official development assistance is likely to show only a marginal increase, remaining around the level of about $14 billion.

Debt-service payments are expected to increase by about 25 per cent as the large debts incurred during the recent recession years mature in 1978. The total amount of debt service for the developing countries as a whole is likely to reach $40 billion in 1978 or double the amount recorded in 1974.

Some moderation in the rate of inflation is forecast for the developing countries as a group in 1978, though the change will not be dramatic. Food items, which have been a major factor in the acceleration of the rate of inflation, are not expected to be in short supply. Thus their prices will exert relatively limited pressure on the consumer price index. The prospective inflationary situation varies between regions and indeed between countries. The oil-exporting countries as well as the Latin American countries will continue to register high rates of inflation. Although a further moderation is projected for the latter region, some of its countries may experience a resurgence in inflation partially as a result of the relaxation of anti-inflationary measures.

Table I-1. Developing countries: agricultural production, 1971-1977

(Percentage change from preceding year)

Region	Average 1971-1976	1975	1976	1977 a/
Developing countries b/	2.3	4.6	2.9	2.1
Africa	1.3	0.8	4.1	-
Latin America	2.6	2.3	5.1	2.1
Near East	4.2	5.0	4.7	-
Far East	2.4	7.6	0.7	3.5
Other developing countries	1.5	1.6	2.4	3.1

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.

b/ For details of the FAO regional grouping followed in the table see introduction, table 2, foot-note c.

Table I-2. Developing countries: food production, 1971-1977

(Percentage change from preceding year)

Region	Average 1971-1976	1975	1976	1977 a/
Developing countries b/	2.7	6.1	3.6	1.4
Africa	1.4	0.8	4.9	-0.8
Latin America	3.0	3.6	7.0	0.7
Near East	4.4	6.4	4.7	-0.6
Far East	2.5	9.2	0.7	3.5
Other developing countries	1.3	1.7	2.5	3.2

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.

b/ For details of the FAO regional grouping followed in the table see introduction, table 2, foot-note c.

Table I-3. Production of major agricultural commodities

Commodity and country group	1970 (millions of tons)	Percentage change from preceding year: Average 1971-1976	1975	1976	1977 a/
Cereals:					
World	1 212.8	3.4	2.3	7.9	-1.0
Developing countries . .	365.6	2.7	9.3	2.7	1.0
Rice (paddy):					
World	308.4	1.6	8.2	-2.9	3.8
Developing countries . .	162.7	2.0	12.9	-3.7	5.9
Wheat:					
World	318.6	4.9	-1.2	17.5	-7.2
Developing countries . .	64.5	7.1	12.5	17.1	-7.3
Coarse grains:					
World	585.8	3.6	1.3	8.3	0.4
Developing countries . .	138.4	1.7	3.6	2.8	0.4
Meat:					
World	105.3	2.5	1.3	2.5	3.5
Developing countries . .	19.9	1.7	3.8	2.2	2.2
Sugar (raw):					
World	74.1	2.5	4.6	5.9	5.2
Developing countries . .	36.8	3.1	1.0	8.7	3.1
Coffee:					
World	3.9	-0.2	-6.7	-18.6	20.2
Developing countries . .	3.9	-0.2	-6.7	-18.6	20.2
Cocoa:					
World	1.5	-1.5	4.0	-13.1	8.8
Developing countries . .	1.5	-1.5	4.0	-13.2	8.8
Tea:					
World	1.4	3.1	2.9	2.3	2.8
Developing countries . .	0.9	2.7	2.0	2.5	2.4

Table I-3 (continued)

Commodity and country group	1970 (millions of tons)	Percentage change from preceding year: Average 1971-1976	1975	1976	1977 a/
Natural rubber:					
World	2.9	3.4	-3.4	7.9	1.1
Developing countries	2.9	3.5	-3.2	7.9	1.0
Jute and substitutes:					
World	3.6	3.4	-0.4	8.7	4.9
Developing countries	2.9	-0.3	-0.9	12.4	7.4
Cotton (lint):					
World	11.8	1.0	-10.8	-0.1	13.4
Developing countries	5.2	-1.0	-14.0	-7.8	16.9
Wool (greasy):					
World	2.8	-1.5	4.5	-2.3	-1.0
Developing countries	0.6	-0.4	2.3	1.4	1.9
Tobacco:					
World	4.7	3.2	2.7	3.1	-0.1
Developing countries	1.8	3.8	-3.3	7.6	4.7
Soya beans:					
World	46.5	5.6	21.1	10.0	24.2
Developing countries	2.8	31.6	22.2	9.2	16.0
Rape seed:					
World	6.7	2.8	16.7	-11.2	1.8
Developing countries	2.1	4.6	24.8	-9.2	-15.6
Sunflower seed:					
World	9.9	1.2	-14.2	8.0	13.5
Developing countries	1.7	2.7	-8.4	32.0	-10.5
Ground-nuts (in shell):					
World	18.3	0.2	11.8	-7.7	3.6
Developing countries	13.5	0.2	17.9	-9.2	4.9

Table I-3 (continued)

Commodity and country group	1970 (millions of tons)	Percentage change from preceding year: Average 1971-1976	1975	1976	1977 a/
Palm oil:					
World	1.9	9.8	10.4	5.9	1.4
Developing countries . .	1.8	10.0	10.7	5.8	1.4
Potatoes:					
World	312.7	-1.0	-3.6	1.2	4.9
Developing countries . .	20.9	3.4	5.6	3.7	6.8

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 I-4. Developing countries: industrial production, growth by country group, 1971-1977

(Percentage change from corresponding period of preceding year)

Component and period	Developing countries a/	Western hemisphere	Asia a/
Industry b/			
Average, 1971-1977	6.9	6.5	8.1
1975	1.0	0.9	1.4
1976	8.8	6.2	11.9
1977	6.9	5.9	8.5
First quarter	5.3	3.1	8.4
Second quarter	5.8	6.0	6.2
Third quarter	7.1	8.0	6.5
Fourth quarter	9.2	6.1	12.4
Mining			
Average, 1971-1977	4.3	1.0	7.3
1975	-8.9	-6.6	-9.3
1976	9.8	2.3	12.4
1977	6.8	3.6	8.4
First quarter	6.4	2.6	8.9
Second quarter	4.7	3.1	6.2
Third quarter	3.1	4.4	2.7
Fourth quarter	12.8	4.0	15.2
Manufacturing			
Average, 1971-1977	7.4	7.0	8.1
1975	3.2	1.2	6.3
1976	8.4	6.6	11.7
1977	6.8	6.0	8.2
First quarter	4.9	2.9	8.2
Second quarter	5.8	6.1	5.7
Third quarter	7.9	8.2	7.6
Fourth quarter	8.2	6.3	11.3

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

a/ As defined in the introduction, table 1, except that Israel has been included with the developed market economies and Turkey with the developing countries.

b/ ISIC 2-4.

Table I-5. **Developing countries:** sources of change in money supply, 1976 and 1977 a/

Direction of change and causative factor b/	Percentage of countries in which the order of importance of the indicated factor in changing the supply of money in 1976 was			1977 was		
	First	Second	Third	First	Second	Third
Expansion						
Foreign assets (net)	22	31	11	26	25	11
Claims on government (net)	24	32	20	24	26	14
Claims on private sector	56	33	2	49	41	1
Contraction						
Foreign assets (net)	36	-	-	36	2	-
Claims on government (net)	22	2	-	32	3	1
Claims on private sector	8	1	-	5	4	-

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

a/ Data for less than 12 months, in some cases.

b/ Based on the consolidated accounts of the monetary authorities and deposit banks.

Table I-6. Developing countries: changes in consumer prices, 1975-1977
(Percentage change from preceding year)

Category and country a/	All items 1975	1976	1977 b/	Food 1975	1976	1977 b/
Countries whose rate of inflation was 10 per cent or less in 1977						
Experiencing less inflation in 1977 than in 1976 c/						
Burma	31.6	25.8	-3.6	35.8	17.8	-9.8
Sierra Leone . . .	19.9	17.1	6.4	23.2	17.4	-5.6
Indonesia	19.0	19.9	9.3	20.5	22.1	8.9
Somalia	19.3	14.1	7.0	23.2	16.1	8.6
Central African Empire	16.1	10.5	5.9	15.0	8.9	4.8
St. Lucia	17.8	9.5	5.6	34.9	-4.6	3.4
Madagascar	8.3	5.0	3.1	6.8	3.8	1.4
Fiji	13.0	11.4	7.0	12.3	3.2	7.5
Papua New Guinea .	10.5	7.7	5.0	7.2	4.1	4.9
Syrian Arab Republic	16.1	14.8	9.8	18.9	14.1	18.9
Bahamas	10.3	4.3	3.3	11.7	2.9	2.1
Iraq	9.6	10.2	8.0	13.7	4.3	13.2
Dominica	18.3	10.9	9.1	18.0	10.6	7.4
Martinique	14.8	11.2	9.6	11.7	9.4	-9.8
Experiencing a similar rate of inflation in 1976 and 1977 c/						
Venezuela	10.2	7.7	7.1	14.7	8.8	12.6
Pakistan	20.9	7.2	6.7	22.2	6.0	5.9
Sri Lanka	6.8	1.2	1.2	7.7	-1.1	0.6
Netherlands Antilles	15.5	5.3	5.3	23.1	5.7	5.9
United Republic of Tanzania	26.1	6.9	7.0	30.6	-0.2	6.2
Guyana	8.0	9.0	9.2	8.4	13.8	9.2
Guadeloupe	16.9	8.6	9.0	16.3	8.2	9.4
Réunion	13.0	8.8	9.6	12.4	7.4	16.0
Congo	17.2	7.2	8.0	17.4	4.8	8.3
Costa Rica	17.3	3.5	4.2	16.3	-0.2	5.0
Liberia	13.6	5.6	6.7	15.4	-0.6	12.5

Table I-6 (continued)

Category and country a/	All items 1975	1976	1977 b/	Food 1975	1976	1977 b/
Experiencing a higher rate of inflation in 1977 than in 1976 c/						
Hong Kong	1.0	3.7	5.4	-1.9	2.9	6.5
Libyan Arab Jamahiriya	9.2	5.5	8.2	7.2	12.8	17.7
Tunisia	9.5	5.4	9.1	9.5	6.4	7.1
Honduras	6.2	5.1	8.4	7.9	6.0	10.9
Barbados	20.3	5.0	8.4	22.3	4.3	8.5
Bolivia	7.9	4.5	9.3	5.3	2.4	9.9
Malawi	15.5	4.3	9.4	19.1	2.3	10.9
Paraguay	6.7	4.5	10.0	4.6	4.2	11.4
Malaysia	4.6	2.6	5.8	3.3	2.1	6.7
Cape Verde	27.8	1.2	3.1	27.2	1.2	8.9
Chad	15.6	3.4	9.2	15.1	-2.3	15.2
Panama	4.6	2.5	8.6	5.7	9.6	5.8
India	5.6	-7.8	7.8	4.4	-12.6	9.3
Singapore	2.6	-1.9	3.2	1.1	-6.1	4.9
Nepal	4.5	-2.2	9.0	11.6	- .5	25.7
Countries whose rate of inflation was more than 10 per cent in 1977						
Experiencing less inflation in 1977 than in 1976 c/						
Saudi Arabia	34.6	31.6	11.6	...	...	...
Argentina	182.8	444.1	176.0	187.6	458.7	209.5
Chile	374.7	211.9	92.0	359.7	212.8	86.2
Niger	9.1	23.6	14.0	-5.4	43.9	16.2
Ethiopia	6.5	28.5	16.7	4.5	41.9	16.8
Seychelles	18.6	14.9	10.2	22.1	16.7	4.8
Republic of Korea . .	25.4	15.3	10.6	31.9	17.8	12.3
Gambia	26.0	17.0	12.4	34.4	19.3	12.5
Mauritius	14.7	13.4	10.3	16.0	6.3	9.9
Bahrain	16.1	14.9	11.9	...	...	...
Mauritania	11.9	14.4	12.1	7.6	19.5	12.7

Table I-6 (continued)

Category and country a/	All items 1975	All items 1976	All items 1977 b/	Food 1975	Food 1976	Food 1977 b/
Experiencing a similar rate of inflation in 1976 and 1977 c/						
Peru	23.7	33.4	33.9	32.8	32.1	37.9
Botswana	12.7	12.0	12.3	8.7	7.1	18.7
Southern Rhodesia . .	10.0	11.6	11.9	12.5	8.8	11.4
Surinam	8.3	10.1	10.4	7.3	9.9	7.4
Zambia	10.0	18.9	19.8	11.3	22.5	17.1
French Guiana	14.2	9.9	10.5	12.3	7.5	13.4
Experiencing a higher rate of inflation in 1977 than in 1976 c/						
Israel	39.3	31.3	34.6	46.1	27.7	41.9
Philippines	6.8	9.2	10.3	5.2	9.2	11.6
Brazil	30.2	35.2	39.3	29.2	34.5	35.8
Trinidad and Tobago .	17.0	10.4	11.8	16.9	7.2	6.9
Guatemala	13.1	10.7	12.6	17.3	9.6	5.6
Uruguay	81.4	50.7	60.0	70.9	47.6	65.0
Kenya	18.4	8.4	10.3	21.0	6.8	11.8
Nigeria	31.7	21.8	28.6	42.9	25.2	41.2
Ecuador	15.3	10.7	14.5	18.6	9.5	18.5
Mexico	15.0	15.8	22.0	12.6	12.7	24.0
Algeria	8.3	9.5	13.4	11.3	14.7	17.1
Jamaica	17.5	9.7	13.7	17.7	9.0	11.5
United Republic of Cameroon	13.5	9.9	14.0	16.1	11.2	23.8
Egypt	9.7	10.3	14.6	12.1	14.8	14.9
Morocco	7.9	8.5	12.6	7.6	10.2	13.8
Ghana	41.2	52.5	80.0	36.7	64.1	103.6
Antigua	11.5	9.7	15.2	16.5	9.0	12.1
Lesotho	14.8	10.5	17.7	18.4	10.2	26.3
El Salvador	19.2	7.0	11.8	20.6	6.9	8.7
Colombia	25.7	17.4	30.0	31.0	16.9	36.3
Dominican Republic . .	14.5	7.8	15.2	17.7	-2.8	16.8
Haiti	16.7	6.2	12.7	18.6	6.3	8.1

Table I-6 (continued)

Category and country a/	All items 1975	1976	1977 b/	Food 1975	1976	1977 b/
Thailand	4.1	4.9	10.1	4.1	5.5	13.5
Jordan	12.0	15.0	31.1	15.7	21.9	44.1
Togo	18.3	11.6	24.4	24.6	16.9	24.0
Ivory Coast	11.4	12.0	27.4	10.4	7.2	40.0
Kuwait	8.6	4.7	11.7	13.1	7.4	11.7
Iran	12.8	11.3	29.5	12.2	6.9	17.5
Swaziland	12.1	6.4	18.6	-7.1	5.9	21.6
Nicaragua	7.5	2.9	11.3	7.7	1.2	13.6
Mozambique	3.3	4.5	18.0	11.7	8.1	26.1
Sudan	24.0	1.7	12.2	28.1	-1.8	11.6
Senegal	30.3	2.7	28.8	39.5	0.1	18.9
Afghanistan	10.0	0.5	11.7	...	...	...
Bangladesh	24.4	-9.6	13.1	20.8	-19.5	13.6

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

a/ Within each group, countries are listed in ascending order of the degree of acceleration as measured by the difference between the percentage increase in 1976 and the percentage increase in 1977.

b/ Based on figures for less than 12 months in some cases.

c/ Based on a comparison of year-to-year changes in annual averages.

Table I-7. Developing countries: changes in retail food prices, a/ 1975-1977

	Number of countries		
	1975	1976	1977
Total	89	89	89
Percentage change from preceding year:			
Negative	2	12	3
0-9.9	22	45	33
10-19.9	37	19	35
20-39.9	23	7	10
40 and over	5	6	8
Changes in food prices accelerated from preceding year	29	20	62
Changes in food prices were more or less the same as in the preceding year	8	4	2
Changes in food prices decelerated from preceding year	52	65	25

Source: Centre for Development Planning, Projections and Policies, based on United Nations, *Monthly Bulletin of Statistics*.

a/ Based on annual changes in the food component of the consumer price index, except in 1977 for which the comparison is between the months for which data were available with corresponding months of 1976.

Table I-8. Developing countries: value of exports and imports, 1971-1977 a/

Region and item	Value (billions of dollars) 1971	1975	1976	1977 b/	Average 1971-1977 b/	Percentage change from preceding year 1975	1976	1977 b/
Developing countries:								
Exports	60.8	204.1	248.2	286.1	26.7	-5.9	21.6	15.2
Imports	63.7	191.7	211.4	250.2	23.7	17.8	10.3	18.4
Balance	-2.9	12.4	36.9	35.8				
Oil-exporting countries: c/								
Exports	23.3	114.2	139.3	153.7	35.4	-7.4	22.0	10.4
Imports	12.8	57.9	73.8	95.1	36.4	59.9	27.5	28.7
Balance	10.5	56.3	65.4	58.7				
Others:								
Exports	37.5	89.9	109.0	132.3	20.4	-4.1	21.2	21.4
Imports	50.9	133.8	137.5	155.1	19.1	5.7	2.8	12.8
Balance	-13.5	-43.9	-28.5	-22.8				
Western hemisphere:								
Exports	16.5	41.7	47.6	56.3	19.8	-7.9	14.1	18.3
Imports	20.0	55.3	57.3	61.7	19.5	5.7	3.6	7.6
Balance	-3.5	-13.6	-9.7	-5.4				
Oil-exporting countries: c/								
Exports	3.8	11.5	12.7	13.4	22.1	-17.9	10.3	5.6
Imports	3.3	8.4	10.0	12.9	24.5	25.4	18.6	29.1
Balance	0.5	3.1	2.7	0.5				
Others:								
Exports	12.7	30.3	34.9	42.9	19.1	-3.5	15.5	22.9
Imports	16.7	46.9	47.3	48.7	18.4	2.8	0.9	3.1
Balance	-4.0	-16.6	-12.4	-5.8				

Table I-8 (continued)

Region and item	Value (billions of dollars) 1971	1975	1976	1977 b/	Average 1971-1977 b/	Percentage change from preceding year 1975	1976	1977 b/
Africa:								
Exports	13.3	34.4	40.6	49.5	20.8	-10.2	17.8	22.1
Imports	12.8	38.3	40.2	49.9	24.0	34.7	5.0	24.1
Balance	0.5	-3.9	0.4	-0.4				
Oil-exporting countries: c/								
Exports	5.7	19.5	25.1	29.0	27.8	-10.4	29.2	15.4
Imports	3.5	15.9	19.1	25.2	35.8	60.2	19.9	32.1
Balance	2.2	3.6	6.0	3.8				
Others:								
Exports	7.6	15.0	15.4	20.5	14.5	-10.0	3.0	33.0
Imports	9.2	22.4	21.1	24.7	17.2	20.9	-5.6	17.0
Balance	-1.6	-7.4	-5.7	-4.2				
West Asia:								
Exports	14.3	81.7	99.1	107.4	39.7	-4.9	21.3	8.5
Imports	9.1	41.1	51.3	64.7	35.1	52.2	24.9	26.0
Balance	5.2	40.6	47.8	42.7				
Oil-exporting countries: c/								
Exports	12.5	76.1	92.9	100.5	41.6	-5.0	22.1	8.2
Imports	4.8	28.8	39.1	49.5	42.7	83.2	35.8	26.8
Balance	7.7	47.3	53.8	51.0				
Others:								
Exports	1.8	5.5	6.2	6.9	21.5	-3.2	11.0	11.9
Imports	4.3	12.3	12.2	15.1	22.0	9.1	-0.7	23.4
Balance	-2.5	-6.8	-6.0	-8.2				

Table I-8 (continued)

Region and item	Value (billions of dollars) 1971	1975	1976	1977 b/	Average 1971-1977 b/	Percentage change from preceding year 1975	1976	1977 b/
South and East Asia:								
Exports	16.7	46.3	61.0	72.8	25.3	-2.6	31.9	19.2
Imports	19.8	57.0	62.5	73.9	20.7	3.6	9.7	18.2
Balance	-3.1	-10.7	-1.5	-1.1				
Oil-exporting countries: c/								
Exports	1.2	7.1	8.5	10.8	37.6	-4.6	20.3	26.2
Imports	1.1	4.8	5.6	7.4	33.1	24.2	18.9	30.3
Balance	0.1	2.3	2.9	3.4				
Others:								
Exports	15.5	39.2	52.5	62.0	23.8	-2.2	34.0	18.1
Imports	20.7	52.2	56.9	66.5	19.7	2.1	8.8	17.0
Balance	-5.2	-13.0	-4.4	-4.5				

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

Table I-9. Developing countries: balance-of-payments summary, 1974-1977 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					
1974	55.4	-16.3	37.9	-2.9	35.0
1975	12.4	-15.9	-3.5	11.5	8.0
1976	36.9	-21.7	15.2	4.1	19.3
1977	35.8	...	...	...	21.5
Oil-exporting developing countries					
1974	87.0	-19.6	67.4	-34.7	32.7
1975	56.3	-21.6	34.7	-25.2	9.5
1976	65.4	-24.4	41.0	-32.6	8.4
1977	58.7	...	...	...	12.4
Non-oil-exporting developing countries					
1974	-32.8	3.3	-29.5	31.8	2.3
1975	-43.9	5.7	-38.2	36.7	-1.5
1976	-28.5	2.7	-25.8	36.7	10.9
1977	-22.8	...	...	...	9.1
Western hemisphere					
1974	-14.2	1.1	-13.1	12.5	-0.6
1975	-16.6	0.3	-16.3	14.2	-2.1
1976	-12.4	1.1	-11.2	15.9	4.7
1977	-5.8	-1.4	-7.2 e/	10.0	2.8
Africa					
1974	-1.9	-2.0	-3.9	4.2	0.3
1975	-7.4	-0.6	-8.0	7.7	-0.3
1976	-5.7	-1.2	-6.9	7.3	0.4
1977	-4.2	...	...	...	0.8
West Asia					
1974	-5.6	2.7	-2.9	3.4	0.5
1975	-6.8	2.8	-4.0	4.5	0.5
1976	-6.1	2.1	-4.0	4.5	0.5
1977	-8.2	...	...	...	1.2
South and East Asia					
1974	-11.1	1.5	-9.6	11.7	2.1
1975	-13.0	3.1	-9.9	10.4	0.5
1976	-4.4	0.7	-3.7	9.2	5.5
1977	-4.5	...	...	...	4.2

(Source and foot-notes on following page)

(Source and foot-notes to table I-9)

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, Annual Report, 1977 and International Financial Statistics (Washington, DC).

a/ Data for 1977 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/ Preliminary estimates by the Economic Commission for Latin America.

Table I-10. Developing countries: net flow of resources to developing countries, 1974-1976 (disbursements)

(Millions of dollars)

Item	1974	1975	1976
Total flow of resources	35 035	49 382	49 080
Excluding southern Europe a/	32 848	46 676	46 215
OPEC countries	5 952	8 164	7 955
Socialist countries a/	1 100	840	620
DAC countries, net flows	27 983	40 378	40 505
Excluding southern Europe a/	25 796	37 671	37 640
Official development assistance	11 317	13 585	13 656
Excluding southern Europe a/.	11 179	13 423	13 376
Bilateral grants	5 336	6 268	6 529
Bilateral loans at concessional terms	2 921	3 547	2 966
Contribution to multilateral institutions	3 060	3 770	4 161
Other official flows	2 183	3 023	3 305
Private flows	13 266	22 428	22 186
Direct investment	7 060	10 494	7 593
Bilateral portfolio	3 795	5 239	6 073
Multilateral portfolio	-70	2 553	3 097
Export credit	2 481	4 142	5 424
Grants by private voluntary agencies	1 217	1 342	1 358

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, Development Co-operation, 1977 Review (Paris).

a/ Excluding figures for seven more-advanced countries of southern Europe which are classified as developing countries by OECD and the World Bank. These countries include Cyprus, Greece, Malta, Portugal, Spain, Turkey and Yugoslavia.

Table I-11. Developing countries: use of international bonds and Euro-currency credit markets, 1975-1977

(Millions of dollars)

Country	International bonds a/			Euro-currency credits		
	1975	1976	1977 b/	1975	1976	1977 b/
Developing countries c/	791	1 840	3 831	10 794	13 658	15 038
Non-oil exporting countries	723	1 701	3 060	7 581	10 222	10 107
Oil-exporting countries	68	139	771	3 213	3 436	4 931
Algeria	35	109	172	500	636	500
Ecuador	-	-	28	55	17	417
Gabon	15	-	-	30	79	20
Indonesia	18	-	-	1 608	498	88
Iran	-	30	81	245	932	1 210
Iraq	-	-	-	500	-	-
United Arab Emirates	-	-	42	6	175	815
Venezuela	-	-	438	200	1 099	1 650
Others d/	-	-	10	69	-	231
Upper middle-income	661	1 171	2 790	6 495	7 265	6 866
Argentina	16	-	43	34	896	643
Brazil	35	193	834	2 120	3 268	2 232
Chile	53	-	-	-	125	302
Colombia	-	-	-	117	110	43
Hong Kong	25	-	128	543	85	8
Israel	245	351	297	-	-	-
Jamaica	-	-	-	103	15	32
Malaysia	-	10	43	425	200	230
Mexico	270	428	1 263	2 166	1 963	2 632
Panama	-	14	27	115	152	147
Peru	-	-	-	434	350	91
Singapore	12	175	155	-	-	-
Uruguay	-	-	-	130	82	60
Zambia	-	-	-	160	-	-
Others e/	5	49	-	148	19	446

Table I-11 (continued)

Country	International bonds a/			Euro-currency credits		
	1975	1976	1977 b/	1975	1976	1977 b/
Lower middle-income countries	53	530	270	959	2 923	3 016
Bolivia	-	-	15	90	161	100
Egypt	-	-	-	-	100	250
El Salvador	-	-	-	45	7	-
Ivory Coast	-	10	-	50	175	226
Morocco	28	45	28	200	389	670
Philippines	-	367	130	223	852	677
Republic of Korea	-	59	72	326	1 062	593
Thailand	-	-	-	5	100	182
United Republic of Cameroon	-	-	-	-	67	15
Others f/	25	-	25	20	10	303
Low-income countries	9	-	-	127	34	225
Sudan	9	-	-	53	19	-
Zaire	-	-	-	28	-	-
Others g/	-	-	-	46	15	225

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

a/ Including foreign bonds.

b/ Preliminary.

c/ Non-oil-exporting countries are grouped according to per capita income for 1975, upper middle income being above $520, lower middle income, $265 to $52C and low income, below $265.

d/ Kuwait, Oman, Qatar, Saudi Arabia and Trinidad and Tobago.

e/ Bahamas, Costa Rica, Fiji, Guatemala, Guyana, Lebanon, Mauritius, Nicaragua and Tunisia.

f/ Honduras, Jordan, Liberia, Papua New Guinea, Senegal and Congo.

g/ Burma, India, Malawi, the Niger, Pakistan and Viet Nam.

Table I-12. Use of IMF credit, a/ 1974-1977

(Millions of SDR)

Region	1974	1975	1976	1977
Developing countries	2 033	3 489	5 241	4 952
Non-oil-exporting developing countries	2 033	3 489	5 241	4 952
Western hemisphere	398	817	1 695	1 567
Africa	385	622	1 111	1 224
West Asia	48	232	322	322
South and East Asia	1 203	1 818	2 113	1 839

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

a/ Use of IMF credit is cumulatively equal to the sum of net drawings on the credit tranche, compensatory drawing, oil facility and the extended facility.

Table I-13. External disbursed debt outstanding and debt service of developing countries, 1973-1976

(Billions of dollars)

Item and country group	1973	1974	1975	1976	Debt service 1973	Debt service 1974	Debt service 1975	Debt service 1976
Total external debt (disbursed)								
Developing countries a/ . .	101.0	125.1	155.0	185.1	14.4	18.2	22.8	28.1
Oil-exporting countries .	22.4	24.4	28.8	34.6	3.0	4.0	5.2	6.4
Non-oil-exporting developing countries .	78.6	100.7	126.2	150.5	11.4	14.2	17.6	21.7
Low-income developing countries (1975 *per capita* income $265 or less).	21.1	23.7	27.7	31.4	1.4	1.7	2.1	2.3
Other developing countries (1975 *per capita* income above $265)	57.5	77.0	98.5	119.1	10.0	12.5	15.5	19.4
Total external public debt (disbursed)								
77 developing countries b/	74.2	89.9	108.8	136.9	9.5	11.3	12.7	15.0
9 oil-exporting countries	15.9	17.9	20.9	27.9	2.0	3.0	2.7	3.0
68 non-oil-exporting countries	58.3	72.0	87.9	109.0	7.5	8.3	10.0	12.0

Source: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, *Development Co-operation, 1976* and *ibid.*, *1977* (Paris).

a/ The debt statistics are based on OECD/World Bank expanded reporting system, as reported by creditors on some 130 developing countries. The figures differ from the World Bank reports not only on account of the number of countries covered but also because of the inclusion of additional items such as export credits reported by creditors other than suppliers' credits, and private credits which are not guaranteed in the debtor country.

b/ The data are from the World Bank Debtor Reporting System; they refer to public and publicly guaranteed debt of 77 developing countries.

Chapter II

THE DEVELOPED MARKET ECONOMIES

Summary

The recovery of economic activity in the developed market economies from the worst recession since the Great Depression experienced a serious setback during 1977. Growth rates of aggregate output and industrial production declined steadily during the year. The slowdown in economic growth follows generally unsatisfactory rates of economic expansion since 1975, especially when the depth of the recent recession is taken into account. Among the major industrial countries, only the United States of America and Japan were able to maintain relatively strong rates of expansion and even these countries experienced declining growth rates as the year wore on.

The failure of the recovery to become self-sustaining can be attributed to the disappointing performance of gross fixed investment. The recovery has not been strong enough to effect a significant reduction in underutilized capacity and induce a pickup in investment expenditures. Cautious economic policies in most countries, and even strongly deflationary policies in some countries, have dampened aggregate demand and caused uncertainty about future policy. In addition, the recovery of business profit margins does not appear to have been strong enough to generate confidence about the future course of profits; profit margins may even have shrunk during 1977.

As a consequence of the sluggishness of aggregate demand, capacity utilization dropped further and unemployment continued to grow even to higher levels than during the trough of the recession. In Europe, for the first time in a recovery period, industrial employment actually declined.

Some progress was made on the inflation front during 1977, particularly in the second half of the year. As a consequence of lower prices for food and industrial materials, inflation, as measured by either the consumer or wholesale price indices, eased in the second half of the year. Although wage rates tended to grow at lower rates than in previous years, substantially reduced productivity gains caused unit labour costs to grow faster in 1977.

The balance-of-payments adjustment process in the developed market economies worked poorly during 1977 and imposed a deflationary bias on the entire world economy. On the one hand, current account deficits in Canada, France, Italy, the United Kingdom, and most of the smaller developed market economies dictated stringent domestic demand policies. These policies worked to some extent; the major countries either reduced their deficits (on trade, in the case of Canada, and on trade and current account in the case of France) or went into current account surplus (Italy and the United Kingdom). On the other hand, owing to fears of inflation, the major surplus countries (the Federal Republic of Germany, Japan, Switzerland and, to some extent, the Netherlands) were reluctant to reflate in order to reduce their surpluses. Hence, there has been a marked asymmetry in the adjustment process. While the deficit countries have eventually been forced to adjust and contract demand, there have been no endogenous forces in the surplus countries making them reflate and absorb more imports.

One of the major changes in external positions during 1977 was the swing into deficit of the United States current account, due to a sharp worsening of the trade deficit. The basic causes for this development were a surge in petroleum imports and the different cyclical position of the United States economy vis-à-vis its major trading partners.

The pattern of external imbalances gave rise to sharp exchange rate movements, particularly towards the end of the year and at the beginning of 1978. While the United States dollar depreciated somewhat, the yen, the deutsche mark and the Swiss franc rose sharply in effective terms. For reasons discussed below, in the absence of policies to revive the world economy it is doubtful that exchange rate changes alone can correct the fundamental imbalances. In fact, the trade and current account surpluses of the Federal Republic of Germany and Japan and the deficits in the United States external accounts are expected to remain large in 1978.

Stagnating aggregate demand and worsening unemployment have prompted Governments to adopt protectionist measures in a large number of countries. The affected industries have been textiles, foot-wear, steel, automobiles, shipbuilding and electronics. While most of the measures taken have been aimed at imports from other developed market economies, imports from developing countries, particularly in Asia and Latin America, have also suffered. At present, these measures have affected only a relatively small proportion of world trade; however, if current deflationary forces are not checked in time, demands for protection from labour and management may prove hard for Governments to resist. Further and more drastic protective import restraints could aggravate the economic slowdown already in progress.

A somewhat more reflationary policy posture, especially in the countries experiencing a marked slowdown, may induce the rise in investment expenditures needed to revive the economic expansion without re-igniting inflationary pressures. The large reserves of unemployed labour and spare capacity, both in industry and in the raw materials sector, would suggest that a faster expansion can be accommodated without generating sharp wage or price increases.

Trends in aggregate output, industry and agriculture

The recovery from the recession of 1973-1975, which had begun during the course of 1975, progressively lost momentum in practically all developed market economies during 1977. As can be seen in the accompanying table, which shows rates of growth of GDP for the developed market economies as a whole and for major subgroups of countries, the combined rate of growth of GDP for the developed market economies in 1977 is estimated to have been marginally above 3.5 per cent, which compares unfavourably with the 5.2 per cent growth recorded in 1976. GDP growth rates for individual countries are shown in table II-1. The sharp deceleration in output which appears to have taken place in the second half of 1977, both in the aggregate and in most individual countries, raises serious doubts as to whether the process of recovery from recession will be sustained. In fact, if present trends continue it would appear that all countries, perhaps with the exception of the United States of America, may now be entering a down phase in the business cycle.

Developed market economies: rates of growth of gross domestic product

(Percentage)

	Developed market economies	Major industrial countries a/	Other industrial countries b/	Primary producing countries c/
Average annual rates				
1971-1977	3.2	3.2	2.6	4.0
1971-1973	5.4	5.8	4.6	6.3
1973-1975	-0.4	-0.7	1.0	3.0
1975-1977	4.4	4.8	2.3	2.8
Percentage change from the preceding year				
1975	-0.9	-1.1	-1.4	2.1
1976	5.2	5.6	2.9	3.2
1977 d/	3.7	4.0	1.7	2.3

Sources: See table II-1.

a/ Canada, France, Germany, Federal Republic of, Italy, Japan, United Kingdom and the United States of America.

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

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

d/ Preliminary estimate based on partial data.

Up to the time of writing, the recovery has been stronger in the major industrial countries than in the smaller countries. In 1976 almost all countries recorded GDP growth rates above or close to 5 per cent. However, the figures on quarterly growth rates, shown in the accompanying table, reveal a clear downward trend in the growth rates of most countries. On a quarterly basis, output in the major industrial countries tended to decelerate steadily throughout 1976. After a rise in the growth rates of a number of countries in the first quarter of 1977 (Canada, France, Japan and the United States of America), the downward trend in growth rates resumed in the second quarter. For the year as a whole, only in the United States of America and Japan did growth rates maintain their momentum to some extent and even these countries registered declining quarterly growth rates. According to preliminary data, some improvement in growth rates took place in the fourth quarter in the Federal Republic of Germany and Japan, perhaps as a result of relaxation of fiscal policies during the course of the year. However, given the current world economic situation, and particularly the appreciation of the yen and the mark, it is uncertain whether these rates can be maintained into 1978.

Major industrial countries: rates of growth of real gross national product, a/ by quarter, 1976-1977

(Percentage change from preceding quarter, seasonally adjusted, at annual rates)

	1976				1977			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
Canada	13.3	3.5	-1.3	-0.8	6.9	-1.0	5.3	...
France	6.5	4.1	1.3	1.3	9.3	-2.1	0.8	...
Germany, Federal Republic of	8.9	4.0	1.0	5.8	3.9	-0.8	-0.4	5.3
Italy	10.0	5.5	1.0	7.6	7.5	-9.9	-2.4	...
Japan	9.5	6.0	1.6	3.4	8.8	6.8	1.8	4.2
United Kingdom b/	5.3	0.4	-0.4	6.0	1.1	-4.3	3.0	0.7
United States of America	8.8	5.0	3.9	1.2	7.5	6.2	5.1	3.8

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics; Organisation for Economic Co-operation and Development, Quarterly National Accounts Bulletin; United Kingdom, Central Statistical Office, Monthly Digest of Statistics; France, Institut national de la statistique et des études économiques, Tendances de la conjoncture.

a/ Except for France, Italy and the United Kingdom, which refer to gross domestic product.

b/ At factor cost, based on output data.

During this recovery the rates of growth recorded by the smaller industrial countries and by the primary producing countries have been very modest. In fact, in most of these countries the recovery has either not yet taken hold or appears to be giving way to fresh recessionary trends. With the exception of Switzerland and the Netherlands, these countries are suffering from high and stubborn rates of inflation and payments deficits, which have dictated the maintenance of restrictive economic policies. To some extent, these internal and external imbalances are the legacy of the recession. With a few exceptions, Governments attempted to maintain the levels of aggregate demand and employment through relatively expansionary economic policies at a time when the pace of economic activity in the major industrial countries was falling sharply. As a consequence, the smaller countries ran up large deficits in the current account of the balance of payments and experienced accelerating inflation rates. Therefore, while most of the large industrial countries were in a position to institute relatively expansionary policies in 1975 and early 1976, the Governments of the smaller countries had no option but to tighten demand-management policies.

An additional factor explaining the virtual stagnation of the smaller developed market economies is the export picture. In these countries, the export sector represents a large share of total production and exports to the major industrial countries are particularly important. Therefore the slowdown in economic growth in the larger economies in the second half of 1976, and later in the course of 1977, had an adverse impact on the growth rates of the smaller economies.

The declining strength of the recovery throughout 1976 and 1977, particularly in the latter year, is also clearly in evidence when examining the growth of industrial production, shown in the accompanying table (for individual country growth rates see table II-2). For the developed market economies as a whole and for the major industrial countries the growth of industrial production peaked in the second quarter of 1976 (on a year-to-year basis) and since then quarterly growth rates have shown a clear downward trend. In the smaller developed market economies, industrial production did not recover from the recession until well into 1976 and growth rates in the smaller industrial countries were negligible in 1977. In some of the primary producing countries the pace of the recovery in industrial production appears to have been maintained in 1977; however, a number of countries experienced negative or very sluggish quarter-to-quarter increases in production.

As shown in table II-3, industrial production trends varied considerably between major regions. While a strong deceleration of output was clearly in evidence in Japan and Western Europe, production remained considerably stronger in North America, although a downward trend is also discernible in the latter region. In Western Europe industrial production during the third quarter of 1977 was at about the same level as a year before, having experienced two quarters of absolute declines.

Although the agricultural sector represents a small share of aggregate output in the developed market economies and therefore does not make a significant contribution to over-all growth rates, trends in agricultural production, particularly food, are important determinants of world food security and influence the evolution of prices. As shown in the accompanying table, the rate of growth of production in 1977 was somewhat higher than in 1976 and both food and agricultural production increased by about 3 per cent over 1976. As a result of good weather after two years of drought, there was a recovery in agricultural

Developed market economies: rates of change in industrial production, 1975-1977

	Developed market economies	Major industrial countries a/	Other industrial countries b/	Primary producing countries c/
Percentage change from preceding year				
1975	-8.0	-8.4	-6.4	-5.6
1976	8.9	9.6	3.9	5.5
1977	3.9 d/	3.9	0.9 d/	...
Percentage change from corresponding quarter of preceding year				
1976:				
First quarter	8.2	9.2	-	1.3
Second quarter	10.7	11.4	5.3	5.8
Third quarter	9.5	9.6	7.2	8.2
Fourth quarter	7.7	8.1	3.8	6.6
1977:				
First quarter	5.7	5.7	3.6	12.0
Second quarter	3.9	4.1	0.1	7.2
Third quarter	2.8	3.0	-1.1	7.4 d/
Fourth quarter	...	2.8	...	...

Source: See table II-2.

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

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

c/ Australia, Greece, Ireland, Portugal, Spain.

d/ Preliminary estimate based on partial data.

production in Western Europe. Production gains were also recorded in North America and in the other developed market economies, particularly in Japan, but output fell sharply in Oceania as a result of adverse weather.

Developed market economies: agricultural production, 1974-1977

(1961-1965 = 100)

	1974	1975	1976	1977 a/
Developed market economies	124	129	131	135
North America b/	120	129	133	139
Western Europe c/	129	128	127	129
Oceania d/	120	129	135	129
Other developed countries e/	134	137	133	143

Source: Food and Agriculture Organization of the United Nations.

a/ Preliminary estimates.

b/ Canada and United States of America.

c/ Austria, Belgium, Denmark, Finland, France, Germany, Federal Republic of, Greece, Iceland, Ireland, Italy, Luxembourg, Malta, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and Yugoslavia.

d/ Australia and New Zealand.

e/ Israel, Japan and South Africa.

In spite of a reduction in land utilization, the output of cereals (wheat, rice and coarse grains) increased by 2.5 per cent due to generally favourable weather conditions and increased use of fertilizer which resulted in substantial improvements in yield. The gains were realized in Western Europe and Japan. In North America output was practically unchanged, after two years of record crops. In Oceania cereal output declined, due partly to reduced plantings and partly to unfavourable weather conditions which affected wheat output in particular.

The increase in cereal output consisted mainly of increases in the output of coarse grains. The output of rice, which constitutes a relatively small proportion of total cereal production, increased, but that of wheat declined by 8.5 per cent. The North American output of wheat (which accounts for about half of total wheat production in the developed market economies) declined by about 10 per cent due mainly to reductions in the acreage harvested induced by low prices and to adverse weather conditions which were responsible for productivity declines. On the other hand, total production of coarse grains in the developed market economies increased by 7.7 per cent.

Following two good grain crops in succession in important growing and consuming countries, which reduced world import demand for grains, stocks of wheat and coarse grains increased by about 50 per cent in the major exporting developed market economies, reflecting roughly the same percentage increase in both wheat and coarse grains. Carry-over cereal stocks at the end of the 1976/77 crop year were at their highest levels since 1973.

As a result of an improved supply situation, wholesale prices for agricultural products decelerated in most countries and actually declined in some of them. International cereal prices in particular declined substantially. Output declines and policy developments in the United States of America could alter the balance between demand and supply of cereals and reverse the downward trend of cereal prices in recent years. In fact, cereal prices did show evidence of firming up in the last quarter of 1977. In August 1977 the United States Government announced the re-establishment of a voluntary acreage set-aside scheme for wheat and coarse grains and a plan to set up a grain reserve of 30 million to 35 million tons. Under the set-aside programme for 1978, a fairly substantial reduction in the acreage planted to wheat and coarse grains is envisaged. It is estimated that as a result of this programme wheat and coarse grain output may be reduced by 20 million tons.

Changes in major components of demand

A major factor explaining the sluggishness of the recovery and the slackening of growth rates in 1977 was the behaviour of gross fixed capital formation. In contrast to past recoveries from recession, fixed investment has failed to rise at rates high enough to sustain the upswing. As can be seen in table II-4, which shows rates of growth of real GDP by demand component in the major industrial countries, the rates of change of gross fixed investment in 1976 and the first half of 1977 were disappointingly low in most countries and a weakening in the growth rates of real gross fixed investment is in evidence in all major industrial countries with the exception of the United States of America and Japan.

The depressed state of investment expenditures is more clearly in evidence when the data on investment by the private sector are considered. These data are shown in table II-5. The rates of growth of both residential construction and non-residential fixed investment have been weak in all countries for which data are available, particularly when compared with the very large declines that took place during the recession. Moreover, the rates of growth of investment appear to have peaked in 1976. Preliminary estimates indicate lower rates of expansion for fixed investment in 1977 than in 1976 in all countries except Japan and the United States of America, and even in these countries private investment appears to have been growing at declining rates in the second half of the year. With the exception of Canada, in the first half of 1977 the level of gross fixed capital formation in the private sector was lower than at its 1973 peak.

The causes for the disappointing performance of fixed investment are complex. In the first place, the recovery of demand has not been strong enough to mop up existing under-utilized capacity and induce new investments. In fact, in most countries, especially in Europe, the capacity utilization indices pointed downward in the first three quarters of 1977. Although some existing capacity has been rendered obsolete by the increase in energy prices since late 1973, the persistently high rates of under-utilization have undoubtedly discouraged a strong upsurge of investment.

Secondly, there are indications that profit margins have not recovered sufficiently from their recession lows and that the recovery of profits in 1976 may have been reversed in the course of 1977.

Although the data on profits are scanty, changes in profit margins can be inferred by looking at the behaviour of wholesale prices relative to unit labour costs and the prices of raw materials. During the recession, profit margins contracted sharply. On the one hand, input prices rose very rapidly as a result of the quadrupling of petroleum prices and the commodity boom of 1972-1974. On the other hand, unit labour costs rose faster than wholesale prices in most countries, due to continuing wage pressures (perhaps in response to actual or anticipated inflation) and sharp reductions in labour productivity. A cyclical rebound in profit margins appears to have taken place in 1976. Owing to strong gains in labour productivity and a moderation in wage settlements, unit labour costs rose substantially less than prices. However, by the second quarter of 1977 there were signs that this relationship between prices and labour costs was beginning to reverse itself, as productivity gains began to be exhausted. It is quite possible that the slow recovery has had some dampening effect on price increases and business firms probably granted wage increases in the expectation that price inflation would be greater than the rates that were actually experienced.

The shrinkage in profit margins that is likely to have taken place in 1977, coming on the heels of what must have been an insufficient recovery in 1975 and 1976, 1/ may be a factor explaining the stagnation of investment in most countries. Although there is no necessary correlation between changes in profits and investment, the evolution of profit margins since the recession is likely to have given rise to pessimistic expectations about the future course of profits, especially in light of the deteriorating aggregate demand picture and the reluctance of many Governments to reflate.

A third factor that may account for the behaviour of private investment during this recovery is uncertainty regarding economic policy. As mentioned above, most Governments have adopted restrictive economic policies and are showing a greater concern over internal and external imbalances than for reviving economic activity. This environment is clearly not conducive to a strong upsurge in private investment. Moreover, fears of continuing inflation and of deflationary economic policies in the future are likely to have been an additional factor dampening investment expenditures. In the United States of America, uncertainties regarding energy and tax policies may have been responsible for the postponement of some investment decisions.

As can be gleaned from table II-4, personal consumption expenditures have made an important contribution to growth rates in the current recovery. However, in several countries (France, the Federal Republic of Germany, Italy, Japan and the United Kingdom) personal consumption has lagged behind the growth of aggregate output and recent trends show a weakening in the rates of expansion of personal consumption in all major industrial countries. Although the growth of personal consumption expenditures is largely determined by the evolution of disposable income, a share of such expenditures, particularly on consumer durable goods, may be considered as discretionary and is likely to depend on consumer confidence. Therefore, in analysing the factors behind the movement in personal consumption it is useful to study the evolution of disposable income and the savings ratio of households.

1/ It should be noted that in 1973-1974 profit shares in GDP were at the trough of a secular downward trend. Although changes in profit shares do not necessarily reflect changes in profit margins, their long-run decline in practically all countries for which data are available does suggest the existence of a downward trend in profit margins.

Figures on the growth of real disposable income, as well as data on household savings, direct taxes and consumption, are shown in table II-6 for the major industrial countries. In 1976 real disposable incomes grew at rates well below the growth of aggregate output; preliminary figures for 1977 show a significant further slowdown. The basic cause for the slow advance in real disposable income during the recovery has been the worsening of unemployment in most countries and the trend towards smaller increases in real wages. An additional factor appears to have been the sharp increases registered in all countries in the ratio of direct taxes to total current receipts of households. Although increases in the direct tax ratio may be due to discretionary tax changes and are not necessarily the result of inflation, the unmistakable upward trend in this ratio in all major industrial countries is prima facie evidence for the existence of a strong fiscal drag on the expansion of demand. During periods of weak demand accompanied by rapid inflation, the progressive tax system no longer acts as an automatic stabilizer; instead of lowering the tax burden of households, it increases it. The data for the period since 1973, roughly coincident with the recent recession and recovery, confirms this hypothesis.

In some countries Governments have become aware of the negative impact of inflation on disposable incomes and consumption expenditures and in Canada, Finland, Sweden and the United Kingdom tax-indexation measures have recently been taken. Therefore, a reduction in fiscal drag in these countries can be expected in the future. Other Governments are reluctant to take similar action, fearing that indexation measures tend to validate inflation and to build it into the structure of the economy.

Judging by household savings ratios, the concomitant increase in unemployment and inflation that has taken place since 1973 has had adverse effects on consumer confidence in a number of countries. In Italy, Japan and the United Kingdom the savings ratio has increased sharply. On the other hand, the savings ratio has unmistakably declined in France, the Federal Republic of Germany and the United States of America. Since Italy and the United Kingdom have experienced the greatest price instability among the major industrial countries and the Federal Republic of Germany and the United States of America have had relatively low inflation rates, high rates of inflation appear to be correlated with a deterioration of consumer confidence, an increase in savings ratios and sluggish demand for consumer durables.

An additional factor accounting for the behaviour of consumption of durable goods was the downturn in residential construction in most countries during 1977. Among the major industrial countries, only Japan and the United States of America recorded strong rates of advance in residential investment during the first half of 1977 and, as mentioned above, residential building is estimated to have slowed considerably in the second half of the year in the United States of America. In the latter country, outlays on automobiles, which had risen strongly earlier in the recovery, began to lose their strength towards the end of the year. The behaviour of other demand components in the major industrial countries is also documented in table II-4. Government consumption expenditures have generally tended to lag behind aggregate output during this recovery. Most Governments have made attempts to limit the growth of public consumption expenditures and to reduce public sector deficits. With the exception of Japan and, to a less extent, France the rates of growth of government consumption expenditures have been very modest.

In the second half of 1975 and during 1976, inventory replenishment provided a significant boost to aggregate demand. As the recovery weakened, however, the contribution of stockbuilding decreased in importance. During 1977 inventories appear to have become excessive in a number of countries. It is possible that the expectations that led to the inventory accumulations of 1976 were disappointed by the weakening of economic activity during 1977. In several countries inventories fell during the first half of 1977 and further drops appear to have occurred in the second half of the year in the Federal Republic of Germany, Italy and the United Kingdom.

The strong upturn in world trade in 1976 was reflected in the large gains registered in the volume of exports of practically all developed market economies. During the course of 1977, real export growth appears to have lost momentum in most countries, perhaps with the exception of the United Kingdom. In Canada, exports surged ahead by over 11 per cent (at an annual rate) in the first half of 1977, perhaps as a consequence of the strength of the economy of the United States of America and the depreciation of the Canadian dollar. The volume of Japanese exports also rose at a very rapid pace (19.5 per cent at an annual rate) in the first half of 1977. However, the effective appreciation of the yen throughout the year and the slowdown in economic activity in Japan's main trading partners appears to have reduced export growth to about 4 per cent (at an annual rate) in the second half of the year. In the case of the United Kingdom, the combination of North Sea oil exports and the competitive price advantage resulting from the fall in the effective sterling rate in late 1976 largely accounts for the high export growth rates of 1977.

In all major industrial countries, with the exception of the United States of America, the change in the foreign balance was positive. Of course, the positive effect on demand must be judged to be only a statistical phenomenon, since in most countries it was the result of a very slow or even negative import growth. The sluggishness of aggregate demand and, in some countries, deliberate import restriction policies had the effect of severely restraining imports. In fact, the modest rates of expansion of imports in all countries with the exception of the United States of America are a manifestation of the deflationary environment that has been characteristic of recent world economic trends.

The unemployment situation

The current recovery has not been strong enough to generate a sustained and significant increase in employment; the absolute number of unemployed was larger towards the end of 1977 than at the trough of the recession. The unemployment figures, indeed, give the best indication of the seriousness of the economic situation: a total of over 16 million people were unemployed in the developed market economies at the end of 1977, with Western Europe and the United States of America each accounting for 7 million unemployed persons. In the United States of America the unemployment rate among black youth was almost 40 per cent. Such high rates of unemployment were accompanied by the persistence of excess capacity in most countries. For instance, in the United States of America capacity utilization in manufacturing industry was still only 83 per cent in December 1977 - no more than a slight improvement on the previous year's figure of 81.2 per cent.

Table II-7 shows unemployment rates for selected developed market economies. With the exception of the United States of America and, to a less extent, Austria, the Federal Republic of Germany, Ireland, the Netherlands and Norway, unemployment rates rose, in some cases quite sharply.

The main cause of the worsening unemployment picture was weakness in the demand for labour, which in turn reflected the slowdown in aggregate demand, particularly in industrial production. As shown in table II-8, during 1977 employment in manufacturing declined in most countries. Towards the end of 1977, in most countries manufacturing employment was either below or at about the same level as that of more than two years earlier, at the trough of the recession. It should be noted that this is a new phenomenon during a recovery period and it underscores the weakness of the current upswing.

In the second half of 1975 and during 1976, the large productivity gains usually associated with the earlier phases of an upswing kept employment from rising; in fact, manufacturing employment in several countries fell. Although the aggregate rate of growth of output was significant, the expansion was unevenly distributed between countries and not strong enough to mop up unemployment. In 1977 productivity gains were considerably more modest and the major factor behind the stagnation in manufacturing employment was, as mentioned above, the diminishing strength of the recovery itself.

Trends in non-agricultural employment are shown in table II-9. Owing to a relatively rapid growth of employment in the services sector in some countries, notably Canada and Italy, during 1977 non-agricultural employment grew substantially faster than manufacturing employment. In other countries, non-agricultural employment either declined or expanded only marginally. When the entire 1975-1977 period is taken into account, it may be seen that the expansion in employment that did take place served to accommodate only a share of the increase in the labour force and that unemployment rates rose.

As is well known, labour force participation rates move pro-cyclically. During upswings, the labour force tends to expand rapidly as workers, encouraged by brighter employment prospects, return to the labour force. Increases in participation rates made the problem of reducing unemployment more difficult in 1975 and 1976. In 1977, however, there are indications that participation rates began to turn downwards again. It is possible that the high rates of unemployment prevailing in most countries and the actual decreases in employment in several countries may have discouraged workers in search of a job. Therefore, the actual unemployment figures may under-represent to some extent the magnitude of the problem.

The deterioration of the employment situation has been felt with particular force by young people. When jobs are scarce and older workers protect their jobs through seniority prerogatives, it is the entrants to labour force that are likely to experience the greatest problems in finding employment. Youth unemployment rates have risen much faster than aggregate unemployment. In addition, while the labour force participation rates of adults (aged 25 to 64) tended to increase in 1975 and 1976, the participation rates of teenagers and young adults (aged 15 to 24) have steadily fallen since the onset of the recession. Thus it seems that weak labour demand has tended to discourage job search among the young and has probably kept younger would-be workers in school.

In response to young and adult unemployment, a number of countries have implemented selective programmes designed to deal with the problem. These measures include youth training programmes, special employment grants to local authorities, tax credits and social security advantages for firms hiring new workers, public works programmes and early retirement schemes. While these programmes may have alleviated the problem to some extent, they have been insufficient to stem the tide of rising unemployment. In a number of cases, the scope of these measures has been constrained by the desire of the authorities to pursue over-all policies of restraint.

The behaviour of prices and costs

Consumer prices have continued to rise at rates that are very high by historical standards, in spite of the weakening of aggregate demand. Inflationary forces have become embedded in the developed market economies and are kept in motion through the interaction of inflationary expectations and cost pressures. Thus it appears that the developed market economies have not yet fully absorbed the inflationary shocks of the 1972-1974 period.

As shown in the accompanying table (individual country rates are given in table II-10), the rate of increase of consumer prices for the developed market economies as a whole rose from 8.6 per cent in 1976 to 9.3 per cent in 1977. When looking at the two halves of the year, however, a noticeable price deceleration can be seen to have occurred in the second half. The deceleration is largely related to the behaviour of food prices, which benefited from good crops in North America and Western Europe. In the case of cereals, price declines during 1977 merely extended the downward drift of prices since 1974. Also contributing to lower food prices were the sharp falls registered by the prices of coffee and tea in the second half of the year. There are some signs that food prices may begin to rise at a somewhat faster pace in the near future but the prospects are for relatively moderate increases. International cereal prices began to improve in the closing months of 1977 in response to expectations of lower 1978 crops in the United States of America and to increased purchases by the Union of Soviet Socialist Republics, Poland and China.

Inflation trends differed widely among the major industrial countries. In the second half of the year, there were substantial declines in the rates of consumer price inflation in Japan and in the countries experiencing the greatest price instability, namely, Italy and the United Kingdom. On the other hand, Canada and France were not able to reduce their inflation rates to any significant degree. A slight acceleration in the consumer price index took place in the United States of America in 1977 as compared to 1976, as a consequence of the effects on food prices and energy of very harsh winter weather in the beginning of the year. While the rate of inflation subsided somewhat in the second half of 1977, it is proving to be a difficult task to reduce it below 6 per cent for any significant period of time. The major concern of policy makers in the Federal Republic of Germany has been to reduce inflation and inflation rates have declined steadily since 1974.

Developed market economies: changes in consumer prices

(Percentage change from preceding period, at annual rate)

	Average, 1960-1973	1976	1977	1977, first half	1977, second half
Developed market economies	4.0	8.6	9.3	10.4	7.9
Major industrial countries a/	3.8	8.0	8.5	9.6	6.9
Other industrial countries b/	4.7	8.6	8.0	8.4	8.0
Primary producing countries c/	6.3	14.4	17.8	19.2	16.8

Source: See table II-10.

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

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

c/ Australia, Cyprus, Greece, Iceland, Ireland, Malta, New Zealand, Portugal, South Africa, Spain, Turkey, Yugoslavia.

With a few exceptions, inflation rates remain higher in the smaller developed market economies, particularly in the primary producing countries, than in the major industrial countries. During 1977, the inflation picture deteriorated in Denmark, Portugal, Spain, Sweden and Yugoslavia but there were some improvements in most of the other countries. On average, inflation rates declined somewhat in the smaller industrial countries and rose significantly in the primary exporting countries. Despite stringent economic policies and poor over-all growth rates, inflation remains an intractable problem in most of these economies.

Underlying inflation trends are probably more accurately gauged by the movement of wholesale prices than of consumer prices. Wholesale price increases, shown in table II-11, were somewhat lower in 1977 than in 1976, the rate of increase exhibiting a decline in 13 out of the 22 countries for which data are available for the entire year. As in the case of consumer prices, the rate of increase decelerated quite sharply between the two halves of the year and in a number of countries (Austria, Belgium, France, Japan and Switzerland) wholesale prices actually declined in the second half. The slower rates of increase of wholesale prices were due to some extent to the pronounced weakening in the prices of industrial materials. While world export prices of agricultural raw materials and minerals rose rapidly in the first half of the year (as compared with the second half of 1976), the weakening of demand caused the prices of agricultural raw materials to fall by over 16 per cent (at an annual rate) between the two halves of 1977 and held the increase in mineral prices to 2.4 per cent.

Despite a deceleration of wages in 1977, unit labour costs rose at a more rapid rate than in 1976. As shown in table II-12, in most countries for which data are available the rate of increase of hourly earnings in manufacturing tended to be lower in the first three quarters of 1977 than in 1976. Nevertheless, the rate of increase in unit labour costs (see table II-13) appears to be on the rise, especially in the major industrial countries. The most important factor accounting for the deterioration in the performance of unit labour costs was the behaviour of labour productivity. Productivity gains were modest during 1977, perhaps as a result of the stagnation in manufacturing production. Whereas strong labour productivity growth kept unit labour costs down in 1976, with the Federal Republic of Germany and Japan experiencing absolute declines, during the course of 1977 unit labour costs rose at a substantially faster pace. Therefore the improvements registered in price performance during 1977 cannot be attributed to favourable developments in wage costs.

Wage cost prospects for the near term are mixed. On the one hand, the state of the labour market may contribute to continued moderation in wage settlements. On the other hand, there are indications that, after several years of wage restraint, labour union militancy may be on the rise in a number of countries. Moreover, if output continues to stagnate, the chances for significant productivity gains are rather slim and unit labour costs could rise at growing rates.

Pressures on prices from the demand side eased in 1977. The weakening of industrial production and over-all growth undoubtedly had some adverse impact on profit margins since enterprises were unable to pass on to users or consumers the full increase in their costs. As a consequence, the recovery in profit margins that had begun to take hold in 1976 was probably reversed. Price developments are, of course, intimately related to private investment trends. As discussed above, the squeeze on profit margins is likely to have had an adverse impact on the private sector's willingness to invest and may, to some extent, explain the disappointing performance of gross fixed investment.

Under current conditions, it could be argued that a somewhat more expansionary policy posture might lead to an improvement and not a deterioration in the cost and price picture. Faster rates of industrial expansion may yield significant labour productivity gains. Given the state of the labour markets, an increase in the demand for labour is unlikely to cause a sharp upward movement in wages. Therefore, controlled reflation may result in a declining rate of increase in unit labour costs. Moreover, the general implication of the supply situation for raw materials is that a somewhat faster rate of expansion of aggregate demand in the world economy is unlikely to put significant pressures on raw material prices. With plenty of idle industrial capacity, such a step-up in demand can be accommodated. Of course, all of these favourable factors would work within certain limits; given inflationary expectations and the still-high inflation rates prevalent in most countries, any expansion of demand must necessarily be cautious.

Trade, external payments and exchange rates

On the trade side, the distinguishing feature of developments during 1977 was a marked slowdown in the growth of export and import volumes (see tables II-14 and II-15). The slower expansion of world trade in 1977 than in 1976 was a direct consequence of the slowdown in output growth rates. Only in the United Kingdom, Ireland and Switzerland did export volumes increase at rates higher than or close to those of 1976. On the import side, depressed demand conditions were responsible for very sluggish import growth rates in most countries, with the exception of the United States of America, Austria, Norway, Switzerland and Ireland. All of these countries registered above-average output growth rates. In addition, imports of crude petroleum rose sharply in the United States of America as a consequence of both severe winter weather and a deliberate government stockpiling policy. In the case of Switzerland, the rapid increase in imports can be attributed to the sharp appreciation of the Swiss franc and to the turn-around in the growth of output from -0.8 in 1976 to about 4 per cent in 1977.

Developments in the terms of trade (see table II-16) depend to a large extent on the commodity composition of exports and imports. While raw material prices tended to fall beginning in the second quarter, they had run up quite sharply in the early months of the year (and during the final months of 1976). Changes in spot prices tend to be passed on to unit values with a lag of varying length; when spot prices are as volatile as they were in 1976 and 1977, the extremes may never get reflected in the unit value of imports and exports. Thus unit values of imported raw materials are likely to have continued to rise in the second half of 1977, but at declining rates. The prices for crude petroleum, an important component of imports in all countries (and a rising export in Norway and the United Kingdom) rose rapidly in the first half of the year, to taper to a considerably more modest rate of increase in the second half of the year. On the other hand, after holding steady in 1976, the unit value of manufactured exports from the developed market economies rose by over 9 per cent in 1977.

On balance, there do not seem to have been large swings in the terms of trade of the developed market economies as a whole. Countries which primarily export manufactures and import raw materials - e.g., the Federal Republic of Germany, Italy, Japan and the United Kingdom - tended to exhibit some improvement in their terms of trade. On the other hand, countries which are important exporters of food-stuffs, particularly cereals - e.g., the United States of America, Canada and Australia - experienced a significant worsening in their terms of trade.

During 1977, external imbalances, a trait that has characterized the economic situation of the developed market economies since 1974, exerted an important influence on economic policies and economic developments. In fact, the evolving pattern of external imbalances was an important contributor to the depressed state of aggregate demand in the world economy. For analytical purposes, in the accompanying table the developed market economies have been grouped into four categories according to the sign of their current accounts in 1976. These groups are: major surplus countries (the Federal Republic of Germany, Japan, the Netherlands and Switzerland), major deficit countries (Canada, France, Italy and the United Kingdom), the United States of America, and other small developed market economies.

Developed market economies: balances on trade, services and current account, by country grouping, 1975-1977

(Billions of dollars)

	Trade balance a/		Balance on services and private transfers		Current account balance b/	
	1976	1977 c/	1976	1977 c/	1976	1977 c/
Developed market economies, total	-20.0	-23.8	10.0	8.4	-10.0	-15.4
Major surplus countries d/	28.5	36.7	-11.4	-14.4	17.3	22.3
Major deficit countries e/	-13.3	-2.7	1.3	1.8	-12.0	-0.9
United States of America	-9.3	-31.2	17.2	18.5	7.9	-12.7
Other developed market economies f/	-25.8	-26.5	2.9	2.4	-23.1	-24.1

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

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

b/ Balance on trade, services and private transfers.

c/ Preliminary estimate based on data for the first three quarters of the year and estimates from Organisation for Economic Co-operation and Development, Economic Outlook (Paris), No. 22 (December 1977).

d/ Germany, Federal Republic of, Japan, the Netherlands and Switzerland.

e/ Canada, France, Italy and the United Kingdom.

f/ Austria, Australia, Belgium, Cyprus, Denmark, Finland, Greece, Iceland, Ireland, Malta, Norway, New Zealand, Portugal, South Africa, Spain, Sweden, Turkey and Yugoslavia.

As can be seen in this table (country data are given in table II-17), the trade and current account balances improved sharply in two groups of countries (the major surplus and the major deficit countries); therefore, the over-all worsening in the current account deficit of the developed market economies was more than entirely accounted for by the deterioration in the current account of the United States of America.

Among the major surplus countries, the increase in their collective current account surplus between 1976 and 1977 was due to the rise of the Japanese surplus from $3.9 billion to $11.2 billion. Preliminary estimates indicate that the surplus of the Federal Republic of Germany rose slightly. While the Dutch surplus fell sharply, the surplus of Switzerland declined marginally. In the case of Japan, both imports and exports decelerated in real terms; however, exports continued to grow at a faster rate than imports and the terms of trade tended to improve as the prices of exported manufactures rose more rapidly than the prices of imported raw materials. In the Federal Republic of Germany, both export and import volumes increased at the same rate and the terms of trade appear to have improved somewhat.

The experience of the deficit countries varied as between the smaller developed market economies and the major deficit countries. While the smaller countries saw their collective trade and current account deficits increase, due to a sharp decline in their export growth rates, the major deficit countries were successful in either reducing their current account deficit quite substantially (France) or transforming it into a surplus (Italy and the United Kingdom). In the case of Canada, a sizable increase in the trade surplus was counteracted by an even larger rise in the deficit on invisibles (mainly foreign income payments and tourism) and the current account deficit worsened. In these countries real imports were severely restricted, exhibiting absolute declines in the second half of the year. In addition, except in Canada, the terms of trade appear to have improved somewhat during 1977. In the United Kingdom, North Sea oil production permitted a saving of an estimated $2.2 billion in net oil imports, a figure which represents over two thirds of the estimated $3.2 billion reduction in the trade deficit between 1976 and 1977.

The United States current account is estimated to have deteriorated from a surplus of $7.9 billion in 1976 to a deficit of $12.7 billion in 1977. All of the deterioration is accounted for by the worsening of the trade deficit from $9.3 billion to $31.2 billion, the surplus on invisibles having registered a small increase. The $22 billion deterioration in the trade balance can be ascribed to a surge in petroleum imports and to the difference in the cyclical position of the United States economy vis-à-vis other developed market economies. Net oil imports are estimated to have risen by about $12 billion, or by over one half of the deterioration in the trade deficit. While the economy of the United States of America continued to expand at a relatively rapid pace, the other developed market economies were experiencing a sharp deceleration of output. As a consequence, real imports rose sharply while real exports experienced a small decline. In addition, the terms of trade appear to have deteriorated.

Movements in exchange rates, as measured by effective exchange rates, 2/

2/ The effective exchange rate 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 multilateral 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.

were broadly in line with the pattern of current accounts (see table II-18 for rates of exchange against the United States dollar and table II-19 for effective exchange rates). Thus the major surplus countries saw their currencies appreciate substantially; effective depreciations were observed in Canada and France, countries which remained in deficit during 1977. The slide of sterling was arrested in the third quarter of 1977 as the United Kingdom's deficit turned into a surplus and the return of confidence in sterling brought large capital inflows. Government intervention in the foreign exchange markets to prevent sterling from appreciating had to be given up at the end of October when it became apparent that the policies to avoid appreciation were endangering monetary stability. The turn-around in Italy's current account slowed down the depreciation of the lira, which was due to the large inflation differential between Italy and its major trading partners. The United States dollar, on the other hand, suffered a relatively small depreciation in effective terms, despite the large current account deficit of the United States of America and destabilizing short-term capital outflows. This can be explained by the strong depreciation of the Canadian dollar and the large share of Canada in the exports and imports of the United States of America. None the less, the trend in the United States dollar was clearly downward, particularly during the fourth quarter of 1977 and in early 1978, which saw a major slide of the dollar against the stronger currencies - namely, the yen, the deutsche mark and the Swiss franc.

Among the smaller countries, Austria's effective exchange rate moved in line with the deutsche mark, the Belgian franc appreciated somewhat as a result of improved external payments, and the Danish, Norwegian and Swedish currencies registered little change despite considerable price inflation and high payments deficits. While capital inflows can explain to some extent the behaviour of the Norwegian krone, the participation of Denmark, Norway and Sweden in the European "snake" - the movement of which is dominated by the stronger deutsche mark, Dutch guilder and Belgian franc - may have been an important factor accounting for the failure of these countries' currencies to depreciate in line with their relative price and payments performance. 3/

The changes in exchange rates brought substantial modifications to the competitive positions of different countries, as gauged by export prices adjusted for changes in effective exchange rates (see table II-20). Despite better price performance, the appreciating countries - Austria, the Federal Republic of Germany, Japan, the Netherlands and Switzerland - experienced a deterioration in their competitive positions. On the other hand, the export competitiveness of Canada, the United States of America and, to a somewhat less extent, France, was substantially improved by currency depreciation, despite above-average inflation in Canada and France. In Italy and the United Kingdom, the improvement in their external payments prevented high inflation rates from being offset by depreciation, as had been the case to a large extent in previous years, and their competitive positions worsened. Among the smaller countries, the competitiveness of Denmark, Norway and Sweden worsened as rapid price increases failed to be compensated by depreciation of their currencies.

The changing patterns of current account balances, as well as the exchange rate movements to which they have given rise, have added to the deflationary

3/ It should be noted that all three currencies were devalued within the "snake" during 1977 and that Sweden left the arrangement in August.

forces in operation in the world economy. Indeed, it can be said that under current conditions the balance-of-payments adjustment process has a marked deflationary bias. On the one hand, deficit countries have been forced to dampen demand and curtail imports. On the other hand, the major surplus countries are under no pressure to reflate and increase their imports. The major preoccupation of Governments in these countries has been to avoid the rekindling of inflationary pressures and to this end they have followed very cautious, if not restrictive, economic policies. The result has been a general slowdown in world trade and a growing current account deficit in the United States of America, which put pressure on the United States dollar and caused the stronger currencies - the yen, deutsche mark and Swiss franc - to appreciate sharply during the closing months of 1977 and in early 1978.

The changes in exchange rates that have taken place in the past year cannot be expected to correct external disequilibria to any significant degree. Perhaps some improvement in the trade balances of the deficit countries can be expected as a result of their enhanced competitive positions. In the United States of America, the adjustment will be hampered by the inelasticity to exchange rate changes of a major component of imports, namely, oil. In the case of the surplus countries, appreciation of their currencies hurts the profitability of exports and, given the large share of exports in total output, reduces their growth rates. While imports do become cheaper, the negative income effect of appreciation works against any marked increase in their volume, especially because they consist largely of industrial inputs. Therefore, owing to the negative income effect of appreciation in the surplus countries, reductions in their surpluses are bound to be small in the short term.

In the absence of measures to revive demand in the countries that are experiencing a marked downturn, exchange rate changes in response to payments imbalances are likely only to intensify the recessionary forces in the world economy. On the one hand, appreciation in the surplus countries is bound to have a negative effect on business confidence and on investment, given the importance of exports to their economies. On the other hand, depreciation of the United States dollar is unlikely to induce any significant increase in investment expenditures, since capital formation in the United States of America responds more to internal than to external developments.

The danger of protectionism

The uncertain economic situation in the developed market economies, characterized by growing unemployment, unused industrial capacity and, in some countries, balance-of-payments difficulties prompted some Governments to resort increasingly to protectionist measures. Unacceptably high unemployment levels in certain labour-intensive industries or where conditions of weak over-all demand and excess capacity existed, aggravated the situation and increased internal demands for import controls. The imposition or extension of selective non-tariff import barriers (e.g., quotas, licensing procedures), as well as "anti-dumping" duties for the purpose of protecting domestic industries and workers, increased in incidence and scope to an even greater degree in 1977 than in the previous year. Although these measures have been aimed primarily at other developed market economies, they have also sought to restrict imports of labour-intensive goods of particular interest to developing countries. The negotiation of export restraint (or orderly marketing) agreements dealing with specific items as an alternative to unilateral controls also intensified as a means of protecting home markets from encroachment by foreign suppliers.

Estimates published by the General Agreement on Tariffs and Trade (GATT) of the proportion of world trade adversely affected by import restrictions introduced or seriously proposed by the developed market economies since 1974 place the figure as somewhere between 3 and 5 per cent, equivalent in value to between $30 billion and $50 billion. 4/ This amount may appear moderate as a share of total unrestricted flows; however, the addition of new restraints actually taken may be the harbinger of further measures in the future, especially if present economic maladjustments are allowed to continue. 5/ Furthermore, those industries most affected by protectionist pressures are mainly the most labour-intensive and therefore the most vocal in terms of union demands for controls or retaliation.

In the 1976-1977 period, the fear of a growing protectionist tide in international trade relations was voiced in a number of international forums as well as by individual Governments. International support for trade liberalization was reflected in late 1976 and 1977 in some forward movement in the stalled Tokyo Round of multilateral trade negotiations (MTN), including implementation of special tariff concessions on developing country exports of tropical products and a speeding up in the time-table for completion of the talks before the end of 1978. The last stage of negotiations began in January 1978; momentum was given to the negotiations following the agreement between the United States of America and the European Economic Community (EEC) to gradually spread reductions in general tariffs and other concessions over the 1980-1988 period. The total tariff cuts envisioned would amount to approximately 40 per cent.

4/ Richard Blackhurst, Nicolas Marian and Jan Tumlir, Trade Liberalization, Protectionism, and Interdependence, GATT Studies in International Trade, No. 5 (Geneva, November 1977).

5/ This fear has been reinforced since late 1977 by the heavy depreciation of the United States dollar: correspondingly appreciating foreign currencies will have the effect of increasing costs for export industries abroad, forcing foreign producers to lower prices to maintain sales in the United States market and thus calling forth charges of "dumping" and demands for retaliatory action by United States manufacturers.

Despite such emphasis on the benefits of free trade and international warnings against protectionist trends, domestic pressures have frequently overridden general aspirations for trade liberalization, particularly during 1977. While the bulk of world trade moves freely in international markets, the amount subject to voluntary or mandatory restrictions has risen over the past three years to reach the estimated figure cited above. The industries most affected by domestic protectionist demands are steel, ships, household electrical appliances, clothing, foot-wear and textiles, the latter being subject to special safeguard provisions under GATT's Multi-fibre Arrangement. According to GATT, the United States of America and Western Europe have been most successful in restricting imports to their markets, while controls have largely been aimed at exports from Japan and the more industrially advanced of the developing countries of Asia and Latin America.

Trade protectionist measures adopted in the period under review most commonly followed the form of unilateral actions or bilateral agreements covering specific import items, often from specified sources. In some instances, imports of a particular good were restricted from all or nearly all supplying countries, through quantitative controls, tariffs, import deposits or licensing arrangements; in the case of the countries members of EEC, some controls were imposed by the Commission for the Nine as a whole and some were individually applied (although in either event, almost without exception, such restraints exempted Community members).

The number of "voluntary" export restraint agreements or, as more recently called, orderly marketing agreements (OMA), has increased substantially during the past few years. This may be because countries exporting "sensitive" items have come to realize that the current climate of economic recession marked by stagnant industrial production and unemployment in the importing countries is not conducive to the latter's increased import absorption and that threats of unilateral quantitative controls as alternatives may indeed be carried through. The GATT study quoted above bases the recent popularity of OMA on their avoidance of international trade regulations and the greater flexibility they afford the importing country to protect its domestic industry from low-cost producers abroad. 6/

Such voluntary arrangements first appeared in the late 1960s to regulate exports of Japanese and other Asian suppliers of cotton textiles to the United States of America. Alleged market disruption from low-cost imports of other textile goods into the traditional producing countries led to a proliferation of restrictions in additional sectors of textile trade. This situation was subsequently dealt with by the negotiation under GATT of the Arrangement Regarding International Trade in Textiles (known as the Multi-fibre Arrangement or MFA), which came into force on 1 January 1974 for a period of four years. The agreement was signed by 50 countries. After extended discussions during which developing exporting countries in Asia and Latin America demanded the elimination of textile trade restrictions and the European Economic Community advocated more favourable terms for importing countries, the agreement was renewed for an additional period of four years on 1 January 1978.

While the agreement seeks to allow the orderly expansion of world textile trade (exports growing by 6 per cent per year) and the elimination of pre-MFA

6/ Blackhurst and others, op. cit.

restrictions, its safeguard provisions may be invoked by participants to introduce specific controls against imports which disrupt or threaten to disrupt domestic markets. Most safeguard measures under the Arrangement take the form of bilateral agreements, although recourse to unilateral actions is allowed under certain circumstances. 7/

Several developed market economies have either implemented or threatened restrictions on foot-wear imports, which are of special interest to developing countries. Countries that have implemented protective barriers against imported foot-wear in 1976 and 1977 include Australia in April 1977, Canada in December 1977 and the United Kingdom in April 1976 and August 1977.

Voluntary or orderly marketing agreements have existed for some time in other "sensitive" industries. Steel imports into the United States of America from Japan and EEC have been restricted since 1969. Licensing restrictions on exports of speciality steel to the United States of America for a three-year period were agreed to by the Japanese authorities in July 1976. Furthermore, record high steel exports from EEC to the United States of America in the third quarter of 1977 (surpassing even Japanese shipments) were voluntarily reduced in the last two months of the year in response to heightened demands for protectionist controls in the United States of America. In return for a preferential price arrangement, the six European Free Trade Area (EFTA) countries agreed in March 1978 not to increase the volume of their steel exports to EEC for the April-December period. Another type of restrictive measure to keep out lower-cost steel imports is being implemented in early 1978 by both the United States of America and EEC. The European plan of minimum import prices went into effect on 1 January 1978 for a three-month trial while the United States reference price system went into effect on 15 Feburary 1978 for an indeterminate duration.

Sharp increases in imports from Japan of electrical machinery, consumer electronic goods and automobiles have prompted a number of importing countries to request restraint from Japanese manufacturers. Despite agreements reached during 1976 and 1977 between Japan and a number of its major trading partners, these imports have continued to increase, albeit at slower rates. In February 1978, Japanese manufacturers rejected their earlier restraints on sales to the United Kingdom and refused to agree to a freeze on 1978 automobile exports to 1977 levels, thus calling forth demands for import controls against Japanese automobiles by British manufacturers.

It can be seen from the preceding discussion that recent protectionist sentiment in the United States of America and Europe has focused on relations with Japan. While United States and European concern over their external relations with Japan may be seen primarily as resulting from balance-of-payments considerations, there are also many protectionist elements involved since the

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7/ By mid-1977, the United States of America had concluded bilateral agreements under the safeguard clause with 18 exporting countries; the European Commission, negotiating for EEC member countries jointly, had 13. The number has increased for both since then and expiring deals have been renegotiated. An example of a unilateral action under MFA is the European Community's imposition, in March 1977, of new limitations on Indian exports of men's and women's shirts and blouses, which had increased in volume nearly threefold between 1975 and 1976.

major Japanese export industries are just those considered "sensitive" by importing countries.

Orderly marketing agreements or bilaterally negotiated limitations of exports of certain items of special interest to the importing country are frequently looked to as an alternative to unilateral import controls. However, the effect is the same in contravening free trade flows and impeding world economic growth. These agreements are particularly damaging to developing countries seeking to expand their exports of manufactures.

The potential impact of protectionist policies on developing countries cannot be properly gauged from the measures alone. Even if developing country exports are exempted from restrictions, a generalized turn to protectionism in the developed market economies is bound to affect adversely the growth process of developing countries by reducing the rate of expansion of world trade and dampening the levels of economic activity. A recent econometric study shows that a generalized escalation of protection on manufactures in the developed market economies in 1978 and 1979 would significantly dampen the expansion of world trade in raw materials as well as in manufactures, with adverse effects on the growth rates of both developed market economies and developing countries. 8/

A more promising alternative policy than restrictive controls for alleviating injury to domestic import-competing industries is adjustment assistance to unemployed workers and firms adversely affected by increased imports. The scheme has been most elaborately worked out in the United States of America where, since the introduction of the Trade Act of 1974, it has assisted nearly 300,000 workers with payments of over $300 million as well as provided educational retraining and relocation allowances. United States industries that have benefited from trade adjustment assistance include footwear, steel and electronics. In some cases, such as footwear manufacturers, trade-related adjustment assistance has replaced protectionist alternatives.

Developments in fiscal and monetary policies

The slowdown in economic growth during 1977 can be ascribed to a large extent to the restrictive policy stance adopted in most countries and to uncertainties regarding the future course of economic policies. High inflation rates prevented most Governments from taking decisive steps to deal with the unemployment situation. In a number of countries large external imbalances contributed to the maintenance or adoption of restrictive economic policies. Concern over the sharp increases in public sector deficits since 1974 that have resulted from both discretionary action to counter the recession and the effects of the recession itself, also influenced fiscal policy in many countries.

The basic policy problem facing Governments in recent years has been the ineffectiveness of traditional fiscal and monetary tools to deal with the worsening inflation/unemployment trade-off and the unavailability of other policy instruments. In those countries that have resorted to them, incomes policies have not succeeded in noticeably reducing inflation rates. Some countries which had

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8/ L. R. Klein and V. Su, "Simulated protectionism according to Project LINK", paper presented to the meeting of Project LINK, United Nations Headquarters, March 1978.

adopted price and wage controls abandoned or substantially modified them in 1977 and early 1978.

In all major industrial countries with the exception of the United States of America, fiscal policies were contractionary at the beginning of the year. However, as the year progressed they were relaxed somewhat, particularly in countries in a strong external position. Nevertheless, the policy stance remains cautious in all major industrial countries and no Government is willing to take chances in re-igniting inflation.

In the course of 1977, the Federal Republic of Germany and Japan introduced some new measures to reduce taxes and increase government spending, particularly on capital formation. In the Federal Republic of Germany, these more expansionary policies were somewhat weakened by increases in value-added taxation. Despite the desire of the federal authorities to increase the over-all public sector deficit, a sharp decline in the deficits of regional and local governments caused the over-all public sector deficit to decline by 22 per cent. The Japanese Government introduced several new public investment measures through the approval of three supplementary budgets beginning in August 1977, when it became apparent that the official target of 6.7 per cent for the growth of GNP in 1977/78 (1 April through 31 March) would not be attained.

Fiscal policies were cautiously relaxed in Canada, France, Italy and the United Kingdom - but perhaps to an even less degree than in the Federal Republic of Germany and Japan. Although these countries improved their external payments situation and achieved some progress on the inflation front, their rates of price increase remained high.

In Canada, fiscal policy was strongly contractionary during most of 1977, although the goal of reducing the public sector's deficit as a percentage of GNP was not achieved. Some stimulative measures consisting of a mixture of tax reductions (affecting both personal and business incomes) and public works were taken in October 1977 and further increases in spending on social services were approved in early 1978. However, the Government does not expect to exceed its guideline for holding the increase in public sector spending to, at most, the rate of growth of nominal GNP.

In France, fiscal policy was restrictive during 1977, although more flexible policies were adopted in the course of the year as the external payments situation improved. Some selective measures were introduced to stimulate employment, including the waiver of social security contributions by employers hiring young people and incentives for early retirement and the repatriation of foreign workers. However, these and other new measures to increase public spending and transfer payments do not constitute a new policy departure and the Government is continuing its implementation of the Plan Barre designed principally to reduce inflation.

The direction of economic policy in Italy in 1977 was largely determined by the need to obtain loans totalling slightly above $1 billion from the International Monetary Fund (IMF) and EEC. These agreements specified stringent credit ceilings, drastic reductions in the public sector's deficit and in the central Government's cash expenditures and limitations on the Government's recourse to the monetary authorities to finance its deficit. Despite a steep increase in taxes in the third quarter of 1976, amounting to 3.5 per cent of GDP, and determined efforts to curb expenditures, the goals set for the Government's expenditure and deficit were not met, partly due to the loss in revenue that resulted from the contraction in economic activity. The turn-around in the current account of the balance of payments and the gradual reduction in the rate of inflation allowed the Government some relaxation in its fiscal policies.

As in the case of Italy, in December 1976 the United Kingdom also agreed to reduce the public sector borrowing requirement and to tighten its control on the expansion of domestic credit as a condition for obtaining a stand-by credit of $3.9 billion from IMF. This was to be achieved principally by further cuts in public spending. After the first quarter of 1977 it became clear that, as a result of harsher-than-expected cuts in capital expenditures, the public sector borrowing requirement would be below the IMF target; accordingly, a reduction in taxes and some stimulative expenditure measures became possible. During the remainder of 1977, personal income tax rates were reduced, increasing gross pay by an equivalent of 6.5 per cent of the total disposable income of the average employee, personal allowances (i.e., income not subject to tax) were indexed to the price level and an additional spending programme of £1 billion was approved. However, even with this increase the growth of public expenditures in 1978/79 is expected to be well below the growth in nominal GDP.

Fiscal policy in the United States appears to have followed a somewhat different pattern from that of the other major industrial countries. Although the intentions of the new Administration that took office in January 1977 had been to stimulate the economy through a combination of tax and spending measures, it had to withdraw its tax proposals under Congressional pressure and in the light of improving economic indicators. As it turned out, the public sector's contribution to demand was less expansionary than anticipated at the beginning of the year, due to a decrease in the federal deficit caused partially by underspending and by an increase in the combined surplus of state and local governments.

There are many uncertainties surrounding fiscal policy in the United States and its impact on the economy. On the one hand, a tax reduction of $25 billion (to be effected through a straight tax cut and tax reforms) has been proposed by the Administration for 1978/79 (beginning October), with about two thirds of the tax reductions benefiting households and much of the remainder benefiting businesses. Even if these measures are passed by Congress, they are not likely to stimulate the economy to any large extent, since it is estimated that they will barely offset the sharp increase in social security taxes, which will begin to be implemented in 1978, and the rise in tax rates brought about by inflation. Moreover, the outcome of the energy legislation pending in Congress and its eventual effect on real disposable incomes are uncertain at this time.

In all major industrial countries with the exception of the United States of America, monetary conditions remained easy, not because of decisions by the monetary authorities to expand the money supply but because of slack demand conditions resulting from the slowdown in economic activity. In fact, three countries (France, Italy and the United Kingdom) were able to meet their targets for monetary expansion and Canada even reduced its target rate of growth for the money stock. In all countries, with the exception of the United States, interest rates showed a downward trend.

In the United States, in the mid-year quarters the growth of the narrowly defined money supply (M1) tended to exceed the Federal Reserve System's target rate; short-term interest rates were allowed to rise in an attempt to dampen the demand for credit, which had expanded together with economic activity. Towards the end of the year, interest rates were again increased in order to combat the depreciation of the dollar by encouraging short-term capital inflows.

Economic policies in most of the smaller developed market economies were restrictive, especially in countries suffering from payments deficits and high rates of inflation. Some relaxation of both fiscal and monetary policies was in evidence in countries that had been able to reduce their inflation rates and were in a more favourable external position. Some countries - notably Norway and Sweden - used fiscal policy to combat unemployment while maintaining stringent monetary policies for purposes of reducing their internal and external imbalances.

The outlook for 1978

The economic outlook for the developed market economies in 1978 is one of slow economic growth at somewhat below 4 per cent - about the same as in 1977 (see table II-21). The growth rate of the United States of America is predicted to decline from 4.9 per cent to about 4.5 per cent. The rate of growth of Japan, the other country exhibiting relatively fast growth in 1977, should be over 5 per cent in 1978. As to the other major industrial countries, some improvement in growth rates is expected as a result of the cautious relaxation of economic policies during 1977 and in the early months of 1978. However, the upturn in these countries is expected to be weak. The effect of policy changes is likely to be felt primarily in the first half of the year, with growth rates slackening in the second half. In most of the smaller developed market economies, growth rates will probably continue to be extremely slow.

As pointed out above, private investment has not performed as well in the recovery from the recession as could have been expected from the evidence of earlier post-war business cycles. The outlook for investment in most developed market economies continues to be weak. Investment expenditures are not likely to increase substantially in the absence of policy changes leading to a faster rate of growth of demand to absorb the large excess capacity still in existence in most countries, a firming of exchange rates and greater success in the control of inflation.

The tax cuts which were introduced in several of the major industrial countries in the course of 1977 could lead, largely through their effect on consumption expenditure, to a fairly moderate expansion of economic activity in the early part of 1978. However, it is doubtful whether this expansion can continue at the same rate into the second half of the year and into 1979 without additional stimuli. Furthermore, in the recent past an unusually large part of increases in disposable income, particularly in the case of Japan, has found its way into savings rather than into expenditure and it is still unclear whether the real value of consumers' assets, which was reduced by the heavy inflation of recent years, has been sufficiently restored to previous levels so as to encourage expenditures to increase together with disposable income.

As the outlook is for slow economic growth, unemployment cannot be expected to improve. Indeed, in many countries, unless growth is above 3.5 per cent unemployment may worsen; the OECD estimates of December 1977 put unemployment in the region as reaching 17 million in 1978, an increase from

16.3 million in September 1977. 9/ Only in the United States of America should the employment situation materially improve with, according to the OECD estimates, the unemployment rate falling from 7 to 6.5 per cent. In the European countries, excluding Portugal and Turkey, it could increase from 5.25 to 6 per cent and in Japan from 2 to 2.25 per cent, although the lifetime employment patterns there mask the full extent of the gap between supply and demand.

With unemployment still high, prices are expected to moderate in 1978; table II-22 shows that the forecasts point to a reduction in inflation in all of the seven major industrial countries except the United States of America. However, even at the reduced rates forecast for 1978, inflation is still at a high level and its persistence is a major factor in restraining the relaxation of fiscal policy that could possibly lead to higher rates of growth in the medium term.

Current estimates indicate that balance-of-payments disequilibria are unlikely to be corrected in 1978 (see table II-23). On the one hand, the deficit on current account of the United States of America is expected to rise somewhat in 1978. While petroleum imports are unlikely to grow much, due to the end of the government oil stockpiling programme and an increase in Alaskan production, the depreciation of the dollar is not expected to have a significant impact on exports until 1979. On the other hand, an increase is forecast for the combined current account surplus of the major surplus countries and the countries identified as major deficit countries because of their deficit position in 1976. While the major surplus countries will probably continue to run high and undiminished surpluses as a result of the slow expansion of imports, sluggish economic growth and deliberate attempts to curtail imports are expected to reduce the deficits of Canada and France and to maintain relatively unchanged the emerging Italian surplus. In the case of the United Kingdom, increasing flows of North Sea oil are expected to contribute to a growing current account surplus. The collective deficit of the smaller countries could also decline, as a consequence of depressed domestic demand conditions. These payments forecasts should be treated with caution, since the methods used and the 1977 benchmark estimates differ widely between sources. Nevertheless, they paint a disturbing picture, in that the imbalances that have led to exchange rate turbulence during 1977 will most probably continue into 1978. Further instability in foreign exchange markets could have additional and unpredictable adverse effects on business confidence and investment plans, particularly in the more foreign-trade oriented economies of Europe and Japan.

While the growth forecasts are not very encouraging, they may nevertheless be on the high side. The evidence points, on the whole, to a downward revision in the already pessimistic forecasts because of two considerations which have been referred to previously. The first is the continued decline in the value of the United States dollar and uncertainty as to its future course, which will adversely affect the growth possibilities of the strong currency countries and, through them, those of the weaker currency countries. On balance, as has been pointed out above, it is doubtful whether the dampening effects of the dollar's decline on aggregate demand in the appreciating countries will be offset by positive effects in the weaker currency countries. The decline in the dollar is already having an

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9/ Organisation for Economic Co-operation and Development, Economic Outlook (Paris), No. 22 (December 1977), p. 5.

adverse effect on countries such as the Federal Republic of Germany and Japan whose currencies have appreciated and which in the past have relied heavily on exports as an engine for growth. In the United States of America, on the other hand, investment is not expected to respond positively to the depreciation of the dollar. On the contrary, the uncertainties generated by recent currency movements and the prospects for continued instability may contribute to dampen rather than encourage new investments.

The second consideration is the reaction of business investment and consumer spending to the somewhat more expansionary fiscal policies adopted in the course of 1977 and in early 1978. Admittedly, the policy changes that did take place were extremely cautious; nevertheless, the forecasts assume that firms and consumers will react to these changes as they have in the past. The experience of the past few years has shown that not only can forecasting fail through not being able to predict changes in government policy but also through not being able to calculate the effect of the policies that are taken. In the present stage of recovery, the spending of businesses and consumers is still marked by extreme caution and so there is more reason to believe that government stimuli will fall short rather than exceed their objectives.

Table II-1. Developed market economies: rates of growth of gross domestic product in constant prices, 1971-1977

(Percentage change from preceding year)

	Average, 1971-1977	1975	1976	1977 a/
Developed market economies	3.2	-0.9	5.2	3.7
Major industrial countries	3.2	-1.1	5.6	4.0
Canada	4.0	0.5	4.9	2.6 b/
France	3.5	0.1	5.2	2.4
Germany, Federal Republic of	2.3	-3.3	5.5	2.4 b/
Italy	2.9	-3.5	5.6	1.7
Japan	5.2	2.4	6.3	5.1 b/
United Kingdom	1.6	-1.3	1.4	1.0
United States of America	3.1	-1.6	6.1	4.9
Other industrial countries	2.6	-1.4	2.9	1.7
Austria	3.8	-2.0	5.2	3.5
Belgium	3.1	-2.0	2.0	2.7
Denmark	2.3	-0.7	5.5	1.5
Finland	2.9	0.2	0.2	-0.5
Luxembourg	1.7	-7.9	2.6	1.7
Netherlands	3.3	-1.2	4.6	2.5
Norway	4.7	3.6	6.0	3.9
Sweden	1.6	0.5	1.5	-2.4
Switzerland	0.5	-7.4	-0.8	4.0
Primary exporting countries	4.0	2.1	3.3	2.3
Australia	3.1	1.4	3.4	2.0
Cyprus	-0.8	-21.1	16.0	15.4 b/
Greece	4.6	6.2	5.8	3.5
Iceland	3.1 c/	-1.5	-0.9	...
Ireland	2.9	-0.2	3.0	5.3
New Zealand	2.5	1.3	-1.1	-1.0
Portugal	4.5	-3.8	5.3	6.0
South Africa	3.1	2.1	1.3	1.5
Spain	4.5	0.6	2.1	2.4
Turkey	6.9	8.9	8.1	5.0
Yugoslavia d/	5.5	3.7	3.9	7.0

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Economic Survey of Europe, 1977 (United Nations publication, Sales No. E.78.II.E.1, 1978); Organisation for Economic Co-operation and Development, Main Economic Indicators; International Monetary Fund, International Financial Statistics; National Institute of Economic and Social Research, National Institute Economic Review (London, February 1978); and official national sources.

a/ Estimate, based on partial data.

b/ Rate of growth of gross national product.

c/ 1971-1976.

d/ Rates of growth of gross material product.

Table II-2. Developed market economies: changes in industrial production, 1971-1977

(Percentage change from corresponding period of preceding year)

	Average, 1971-1976	1975	1976	1977	1977			
					First quarter	Second quarter	Third quarter	Fourth quarter
Developed market economies	3.2	-8.0	8.9	3.9 a/	5.7	3.9	2.8	...
Major industrial countries	3.1	-8.4	9.6	3.9	5.7	4.1	3.0	2.8
Canada	3.8	-4.8	5.0	3.2	4.4	2.8	3.1	3.1
France	3.0	-8.9	9.8	2.7	5.8	2.5	-1.6	-0.9
Germany, Federal Republic of	1.9	-6.1	8.5	2.0	5.5	2.3	0.4	2.1
Italy	4.1	-9.2	12.4	-1.1	10.9	-1.4	-3.6	-9.4
Japan	4.0	-11.0	13.7	4.1	8.6	5.0	2.2	2.1
United Kingdom	0.4	-4.8	1.0	0.1	2.1	-0.3	0.6	-1.7
United States of America	3.4	-8.8	10.2	5.6	4.9	5.9	5.8	5.7
Other industrial countries	2.4	-6.4	3.9	0.9 a/	3.6	0.1	-1.1	...
Austria	3.4	-6.3	5.9	...	8.3	4.0	3.2	...
Belgium	2.9	-10.4	9.5	-0.4	5.4	1.1	-4.1	-3.6
Denmark b/	2.2	-6.4	11.8	...	3.6	-2.6	1.8	...
Finland	4.0	-4.7	1.6	-2.0	0.8	-4.9	-	-1.9
Luxembourg	-	-21.8	6.5	0.9	3.1	-1.0	-3.1	1.0
Netherlands	3.5	-1.7	5.9	0.8	2.4	1.6	-1.6	-1.6
Norway	2.7	-1.7	0.8	-1.7	0.8	-2.6	-4.2	-1.7
Sweden	2.5	-1.7	-0.9	-2.6	0.9	-3.5	-4.3	-3.5
Switzerland	-1.0	-14.4	1.1	...	5.4	3.1	4.1	...
Primary producing countries	5.6	-5.6	5.5	...	12.0	7.2	7.4 a/	...
Australia c/	2.2	-7.6	5.5	...	1.8	-0.9	-1.7	...
Greece	8.4	4.9	9.9	...	3.7	-0.6	2.4	...
Ireland	3.5	-6.6	9.6	...	7.4	8.9	3.2	...
Portugal	6.9	-4.3	3.0	...	12.6	14.4	...	...
Spain	7.5	-6.0	5.0	...	20.4	12.2	11.3	...
South Africa b/	3.9	2.2	-1.6	...	-8.6	-4.6	-5.7	...
Yugoslavia	6.8	5.0	4.1	8.5	9.5	12.7	8.9	5.4

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on International Monetary Fund, International Financial Statistics, and Organisation for Economic Co-operation and Development, Industrial Production.

a/ Estimate based on partial data.

b/ Manufacturing products.

c/ Manufacturing, electricity and gas.

Table II-3. Developed market economies: index numbers of industrial production by regional grouping, 1974-1977

(1970 = 100)

	1974	1975	1976	1976 a/ First quarter	1976 a/ Second quarter	1976 a/ Third quarter	1976 a/ Fourth quarter	1977 a/ First quarter	1977 a/ Second quarter	1977 a/ Third quarter
Total industrial production										
Developed market economies	120	110	120	117	119	121	122	124	125	124
North America b/	121	110	121	118	121	122	123	124	127	129
Western Europe c/	118	110	118	114	117	117	120	122	120	118
Japan	123	110	125	119	125	127	129	130	131	130
Mining										
Developed market economies	102	100	102	100	99	100	102	103	104	103
North America b/	106	103	104	104	104	104	106	107	110	108
Western Europe c/	98	99	101	97	94	95	97	100	96	96
Japan	77	73	73	73	72	73	74	73	75	75
Manufacturing										
Developed market economies	120	110	120	116	119	120	122	123	124	124
North America b/	122	110	122	119	122	124	124	125	129	130
Western Europe c/	117	109	116	111	115	115	117	119	117	115
Japan	124	110	125	119	125	127	129	130	131	130

Source: Organisation for Economic Co-operation and Development, Industrial Production.

a/ Quarterly index numbers are seasonally adjusted.

b/ Canada and United States of America.

c/ Austria, Belgium, Finland, France, Germany, Federal Republic of, Greece, Ireland, Italy, Luxembourg, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom.

Table II-4. Major industrial countries: changes in major components of final demand, in constant prices, 1975-1977

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

	1975	1976	1976, second half	1977, first half
Canada				
Private consumption	5.1	6.1	6.3	1.1
Government consumption	4.4	0.9	-4.9	9.1
Gross fixed investment	3.9	0.8	-7.1	3.4
Increase in stocks a/	-2.6	1.6	-1.6	-2.0
Exports of goods and services	-6.4	8.9	6.9	11.5
Imports of goods and services	-2.4	8.2	2.8	6.7
Foreign balance b/	-0.8	-0.3	0.7	0.7
GNP at market prices	1.1	4.9	-	2.5
France				
Private consumption	3.1	4.9	4.0	1.8
Government consumption	5.1	4.7	4.4	2.5
Gross fixed investment	-3.4	4.5	2.8	1.0
Increase in stocks a/	-3.0	2.1	0.4	-1.1
Exports of goods and services	-3.0	9.4	5.1	6.9
Imports of goods and services	-8.7	19.5	15.8	-6.0
Foreign balance b/	1.3	-1.8	-0.8	2.4
GDP at market prices	0.1	5.2	3.5	3.0
Germany, Federal Republic of				
Private consumption	2.6	3.6	2.7	2.4
Government consumption	3.6	2.4	-0.8	0.7
Gross fixed investment	-4.1	5.0	4.7	4.7
Increase in stocks a/	-0.7	1.6	0.9	-0.2
Exports of goods and services	-8.7	11.8	8.6	4.2
Imports of goods and services	0.8	11.4	10.0	2.9
Foreign balance b/	-3.5	0.4	-0.3	0.8
GNP at market prices	-3.2	5.7	2.9	3.1
Italy				
Private consumption	-1.4	3.2	3.8	1.2
Government consumption	2.8	1.9	-0.1	2.0
Gross fixed investment	-13.0	2.3	6.6	5.6
Increase in stocks a/	-3.1	2.6	-2.8	-0.4
Exports of goods and services	3.5	12.6	13.6	4.2
Imports of goods and services	-9.9	13.1	-0.5	3.6
Foreign balance b/	2.7	0.3	2.9	0.6
GDP at market prices	-3.5	5.6	3.8	2.2
Japan				
Private consumption	6.1	4.4	2.3	3.7
Government consumption	7.0	4.3	0.3	5.4
Gross fixed investment	-2.8	4.5	0.3	8.0
Increase in stocks a/	-2.1	0.4	1.9	-1.0
Exports of goods and services	4.4	17.2	8.9	19.5
Imports of goods and services	-8.1	7.9	16.1	-3.2
Foreign balance b/	1.7	1.7	-0.3	3.6
GNP at market prices	2.4	6.3	3.0	7.6

Table II-4 (continued)

	1975	1976	1976, second half	1977, First half
United Kingdom				
Private consumption	-1.0	0.2	2.3	-3.9
Government consumption	4.5	2.4	2.2	-1.1
Gross fixed investment	-1.3	-4.4	-6.2	-12.6
Increase in stocks a/	-2.1	1.2	1.0	2.1
Exports of goods and services	-3.9	6.8	9.4	12.7
Imports of goods and services	-6.5	5.1	10.4	8.4
Foreign balance b/	0.7	0.5	-0.1	0.4
GDP at market prices	-1.6	1.5	1.7	-1.8
United States of America				
Private consumption	1.9	6.0	5.0	5.1
Government expenditure	2.1	0.5	0.3	1.6
Gross private fixed investment	-13.7	8.6	9.6	15.0
Increase in stocks a/	-1.5	1.5	-0.8	0.8
Exports of goods and services	-3.3	6.6	7.0	0.6
Imports of goods and services	12.6	18.4	11.7	14.4
Foreign balance b/	0.5	-0.5	-0.2	-0.8
GNP at market prices	-1.3	6.0	3.5	5.6

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 of OECD Countries, 1975*; *Economic Outlook*, various issues; and *Economic Surveys - Germany* (July 1977).

a/ Change in stockbuilding as percentage of GNP/GDP in the preceding period.

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

Table II-5. Selected developed market economies: rates of change of private gross fixed capital formation, in constant prices, 1960-1977

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

Country	Average, 1960-1973 a/	1974	1975	1976	1977, first half b/ Growth rate from previous half year	1977, first half b/ Index (1973=100)
Australia						
Gross fixed capital formation	5.2	-2.0	-7.5	6.7	-4.1	95.6
Residential buildings	6.0	-13.1	-14.2	25.9	-14.6	89.1
Non-residential fixed investment	4.9	3.1	-4.9	0.1	0.9	98.1
Canada c/						
Gross fixed capital formation	6.0	5.5	3.8	1.9	3.2	111.6
Residential buildings	6.5	-0.5	-6.6	17.5	-9.2	104.6
Non-residential fixed investment	5.8	8.0	7.8	-3.2	8.6	114.4
France						
Gross fixed capital formation	...	4.0	-8.0	2.9	-0.3	98.3
Residential buildings d/	...	4.3	-2.6	6.6	3.0	109.9
Non-residential fixed investment	...	3.7	-12.4	-0.1	-3.0	89.4
Germany, Federal Republic of c/						
Gross fixed capital formation	4.9	-11.1	-5.4	7.1	6.7	93.1
Residential buildings	3.5	-16.3	-12.4	6.7	-1.7	77.5
Non-residential fixed investment	5.4	-9.4	-3.6	7.3	11.0	99.0
Italy						
Gross fixed capital formation	...	7.8	-16.9	2.8	...	92.1 e/
Residential buildings	...	2.7	-10.9	-2.3	2.7	91.8
Non-residential fixed investment	...	10.8	-20.4	4.8	...	92.4 e/
Japan						
Gross fixed capital formation	14.3	-11.3	-7.7	4.6	6.9	88.6
Residential buildings	14.9	-12.8	7.3	10.4	9.6	106.6
Non-residential fixed investment	14.0	-10.8	-13.1	2.1	5.6	82.1
Sweden c/						
Gross fixed capital formation	4.1	3.0	-	-2.0	-16.0 f/	95.8 f/
Residential buildings	5.4	-8.3	-4.3	-8.3	...	80.4 e/
Non-residential fixed investment	3.5	8.5	-0.3	1.1	...	107.0 e/
United Kingdom c/						
Gross fixed capital formation	4.3	-1.1	-0.8	-3.2	-6.3 g/	89.0 h/
Residential buildings	3.7	-3.8	6.8	-0.4	-32.8 g/	87.5 h/
Non-residential fixed investment	4.4	-0.3	-2.9	-4.1	-0.8 g/	89.4 h/
United States of America						
Gross fixed capital formation	5.0	-7.9	-13.7	8.5	12.7	96.9
Residential buildings	4.2	-24.6	-13.8	23.2	21.5	96.6
Non-residential fixed investment	5.4	-0.3	-13.7	3.5	9.1	97.0

(Sources and foot-notes on following page)

(Sources and foot-notes to table II-5)

Sources: 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 and Economic Outlook, No. 22 (December 1977).

a/ For the United Kingdom and Sweden, periods are 1962-1973 and 1963-1973, respectively.

b/ Calculations based on seasonally adjusted data.

c/ Including public sector enterprises.

d/ Including public housing.

e/ 1976.

f/ Based on seasonally unadjusted data.

g/ Excluding public sector enterprises.

h/ 1977, first quarter.

Table II-6. Major industrial countries: factors explaining the growth of real household consumption expenditure, 1970-1977

(Percentage)

Country	1970-1973	1973-1975	1976 a/	1977 b/
Canada				
Rate of change of real disposable income c/	8.5	5.4	3.8	1.1
Savings rate d/	8.2	10.5	8.8	7.8
Direct tax rate e/	18.9	19.2	20.0	20.0
Rate of change of real consumption f/	7.0	5.0	6.0	2.3
France				
Rate of change of real disposable income c/	6.0	3.0	3.5	1.8
Savings rate d/	19.9	20.2	18.6	17.9
Direct tax rate e/	21.3	21.7	23.6	24.4
Rate of change of real consumption f/	5.8	2.9	5.7	2.8
Germany, Federal Republic of				
Rate of change of real disposable income c/	3.3	1.7	0.7	2.3
Savings rate d/	18.5	17.4	16.0	15.4
Direct tax rate e/	25.1	27.4	28.9	29.6
Rate of change of real consumption f/	4.2	1.6	2.6	3.0
Italy				
Rate of change of real disposable income c/	...	3.2 g/	2.4	0.3
Savings rate d/	...	18.0 h/	21.6	20.8
Direct tax rate e/	...	22.1 h/	24.3	25.6
Rate of change of real consumption f/	...	-2.8 g/	3.8	1.4
Japan				
Rate of change of real disposable income c/	10.6	3.7	3.7	3.2
Savings rate d/	23.2	26.4	25.7	25.8
Direct tax rate e/	11.2	12.1	12.4	12.8
Rate of change of real consumption f/	8.2	3.7	4.4	3.0
United Kingdom				
Rate of change of real disposable income c/	5.0	0.6	0.6	-3.6
Savings rate d/	6.9	9.7	10.4	9.3
Direct tax rate e/	20.3	21.6	24.1	23.5
Rate of change of real consumption f/	4.4	-0.8	0.8	-2.4

Table II-6 (continued)

Country	1970-1973	1973-1975	1976 a/	1977 b/
United States of America				
Rate of change of real disposable income c/	5.0	-	4.1	2.9
Savings rate d/	8.3	8.6	6.3	5.7
Direct tax rate e/	19.6	20.2	20.4	21.1
Rate of change of real consumption f/	4.8	0.1	6.7	3.5

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on Organisation for Economic Co-operation and Development, National Accounts of OECD Countries, 1975, vol. II, and Economic Outlool various issues.

a/ Preliminary.

b/ Estimate based on partial data.

c/ Disposable income (current receipts of households minus direct taxes) divided by the deflator of household final consumption expenditures.

d/ Disposable income minus household consumption expenditures, as a percentage of disposable income.

e/ Direct taxes, as a percentage of total current receipts of households.

f/ Nominal household consumption expenditures deflated by the household consumption deflator. Owing to the preliminary nature of the 1976 data, there are some minor discrepancies between these estimates and those shown in table I-4.

g/ 1974-1975.

h/ 1974.

Table II-7. Selected developed market economies: unemployment rates, a/ 1971-1977

(Percentage of total labour force)

A. Labour force sample surveys
B. Employment office statistics
C. Compulsory unemployment insurance statistics

	Source of data	1971	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries									
Canada	A	6.4	6.9	7.2	8.1	9.0	8.0	7.6	7.8
France	B	1.8 b/	4.0	4.2	5.0 c/	4.3	4.9	5.2	5.7 c/
Germany, Federal Republic of	B	0.8	4.7	4.6	4.5	5.2	4.3	4.2	4.5
Italy	A	3.2	3.3	3.7	...	6.8 d/	6.6	7.7	...
Japan	A	1.2	1.9	2.0	2.0	2.3	2.0	1.9	1.9 c/
United Kingdom	B	3.7	4.4	5.9	6.4	6.1	6.0	6.9	6.4
United States of America	A	5.9	8.5	7.7	7.0	8.2	6.9	6.8	6.2
Other industrial countries									
Austria	B	2.1	2.0	2.0	1.8	2.7	1.3	1.1	2.2
Belgium	B	2.9	6.7	8.6	9.9	9.7	9.4	9.7	10.7
Denmark	B	1.1 e/	6.0	6.1	7.3	7.8	6.8	6.8	8.0
Finland	A	2.3	2.2	4.0 d/	6.2 c/	6.1	6.0	5.9	6.6 c/
Netherlands	B	1.6	5.2	5.5	5.3	5.6	4.8	5.3	5.4
Norway	A	0.8 c/	2.3	1.8	...	1.3	1.9	1.3	...
Sweden	A	2.5	1.6	1.6	1.8	1.9	1.5	1.9	1.9
Primary producing countries									
Australia	A	1.6	4.4	4.4	5.2	5.4	5.1	5.2	5.1
Cyprus	B	1.1	10.9	7.1	...	4.4	2.5	...	...
Ireland	C	7.2	12.2	12.3	12.0 c/	12.8	12.2	11.5	11.1 c/
Yugoslavia	B	6.7	10.2	11.4	...	12.5	12.0	11.6	...

(Source and foot-notes on following page)

(Source and foot-notes to table II-7)

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

a/ Owing to differences in definition and coverage, rates are not comparable between countries.

b/ 1972.

c/ Estimate based on partial data.

d/ Revised series. Rates are not comparable with those of previous years.

e/ 1973.

Table II-8. Selected developed market economies: index numbers of manufacturing employment, 1975-1977

(1970 = 100)

	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries							
Canada	102.8	104.3	...	100.7	103.9	104.7	...
France	100.4	99.9	...	99.1	99.3	98.6	...
Germany, Federal Republic of	90.6	90.3	...	90.1	89.7	...	...
Italy	107.2	107.5	...	...	...	...	...
Japan	99.4	99.0	98.8 a/	99.0	98.9	97.5	99.7 a/
United Kingdom	89.8	87.5	88.5 a/	88.4	88.5	88.5	88.6 a/
United States of America	94.8	98.0	101.1	98.5	100.9	102.1	102.8
Other industrial countries							
Austria	101.7	100.0	100.9 a/	100.7	100.4	101.2	101.1 a/
Denmark	89.4	89.6	...	89.1	88.8	88.4	...
Finland	109.6	106.1	104.5 a/	102.7	105.9	106.4	103.1 a/
Netherlands	88.0	86.0	...	84.0	84.0	...	...
Norway b/	109.9	111.0	...	112.0	110.2	110.4	...
Sweden	108.8	104.6	...	103.1	102.0	100.9	...
Switzerland	85.9	79.8	...	79.0	79.6	80.0	...
Primary producing countries							
Australia	94.0	92.9	...	91.4	90.4	89.2	...
Greece	119.2	126.5	...	127.7	130.6	135.3	...
Ireland	94.3	95.9	...	96.9	98.2	...	...
New Zealand c/	105.9	108.1	...	111.3	113.4	...	...
South Africa	117.1	118.3	...	...	...	...	...
Spain	115.1	115.8	...	...	...	...	...
Yugoslavia	127.5	131.4	...	134.0	135.1	138.8	...

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

a/ Estimate based on partial data.

b/ 1972 = 100.

c/ 1971 = 100.

Table II-9. Selected developed market economies: index numbers of non-agricultural employment, 1975-1977

(1970 = 100)

	1975	1976	1977	1976 Third quarter	1976 Fourth quarter	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter a/
Major industrial countries									
Canada	119.8	122.8	125.3	126.9	122.9	120.0	125.3	129.6	126.6
France	99.2	98.9	...	99.2	98.8	98.5	98.7	98.1	...
Germany, Federal Republic of	91.1	95.4	...	95.7	96.2	95.1	95.0	95.5	...
Italy	106.3	107.4	...	109.5	108.3	111.3	112.4	113.0	...
Japan	108.4	110.0	112.0 a/	110.1	111.1	111.3	111.7	111.7	113.4 a/
United States of America	108.3	112.0	116.1	113.4	113.7	113.1	115.6	117.9	118.8
Other industrial countries									
Finland	115.0	112.9	110.6 a/	116.8	110.7	107.7	112.2	114.4	108.0 a/
Luxembourg	105.8	103.4	...	104.0	101.5	101.7	102.5	101.7	...
Norway b/	106.8	111.9	...	111.5	114.5	114.0	114.3	114.8	...
Sweden	107.4	108.3	108.8	108.7	108.5	107.8	109.0	109.5	108.7
Primary producing countries									
Australia	109.0	110.9	112.4	109.8	111.4	112.0	112.8	112.4	112.0
New Zealand	111.5	112.7	...	112.1	111.9	113.7	114.9		...
South Africa	114.9	117.4	...	117.5	115.1	...	...		...
Spain	121.4	123.3	...	123.8	124.1	...	...		...
Yugoslavia	125.2	130.0	...	131.6	132.3	134.6	136.5	...	...

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

a/ Estimate based on partial data.

b/ 1972 = 100

Table II-10. Developed market economies: changes in consumer prices, 1960-1977

(Percentage change from preceding period, at annual rates)

	Average, 1960-1973	1975	1976	1977	1977, first half	1977, second half
Developed market economies	4.0	11.6	8.6	9.3	10.4	7.9
Major industrial countries	3.8	11.1	8.0	8.5	9.6	6.9
Canada	3.3	10.8	7.5	8.0	8.3	9.2
France	4.6	11.8	9.2	9.5	9.0	10.1
Germany, Federal Republic of	3.4	6.0	4.5	3.9	5.6	2.1
Italy	4.7	17.0	16.8	18.4	21.0	12.7
Japan	6.2	11.9	9.3	8.1	10.0	4.1
United Kingdom	5.0	24.3	16.5	15.9	20.5	9.3
United States of America	3.2	9.1	5.8	6.5	7.0	6.3
Other industrial countries	4.7	10.4	8.6	8.0	8.4	8.0
Austria	4.2	8.5	7.3	5.5	6.6	3.5
Belgium	3.6	12.7	9.2	7.1	7.5	5.8
Denmark	6.2	9.6	9.0	11.1	9.5	14.1
Finland	5.6	17.8	14.4	12.6	13.3	12.2
Luxembourg	3.2	10.7	9.8	6.7	8.1	3.3
Netherlands	4.9	10.2	8.8	6.7	7.0	5.3
Norway	5.1	11.7	9.2	9.1	10.3	8.2
Sweden	4.7	9.8	10.3	11.4	12.1	13.3
Switzerland	4.2	6.7	1.7	1.3	1.4	1.4
Primary exporting countries	6.3	17.4	14.4	17.8	19.2	16.8
Australia	3.5	15.1	13.6	12.3	13.5	8.9
Cyprus	2.1	4.6	3.8	4.0	3.6	7.4
Greece	3.3	13.4	13.3	12.1	15.0	10.8
Iceland	11.6	48.9	32.2	28.5	27.8	29.2
Ireland	5.9	20.9	18.0	13.6	16.6	7.8
Malta	2.4	6.1	3.1	10.0	16.7	7.1
New Zealand	4.8	14.7	17.0	14.3	13.5	16.3
Portugal	6.1	15.2	21.0	23.9	32.4	1.5
South Africa	3.8	13.5	11.1	11.3 a/	11.0	11.5 a/
Spain	6.9	16.9	17.7	24.5	25.2	28.9
Turkey	11.5 b/	20.1	15.3	29.8	23.4	57.2
Yugoslavia	13.5	26.2	10.0	15.9 a/	24.2	8.0 a/

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

a/ Estimate based on partial data.

b/ 1968-73.

Table II-11. Developed market economies: changes in wholesale prices, 1971-1977

(Percentage change from preceding period, at annual rates)

	Average, 1971-1977	1975	1976	1977	1977, first half	1977, second half
Major industrial countries						
Canada	11.6	6.7	4.3	9.1 a/	14.3	5.8 a/
France b/	8.8	-5.7	7.4	5.6	4.5	-0.6
Germany, Federal Republic of	5.6	4.7	3.9	2.6	3.0	0.5
Italy	18.0	8.6	22.9	17.4	17.9	7.6
Japan	9.3	3.0	5.5	1.9	2.0	-1.6
United Kingdom c/	15.7	24.1	16.4	19.2 a/	23.1	13.4 a/
United States of America	9.3	8.6	4.6	6.2	7.9	3.9
Other industrial countries						
Austria	5.8	6.2	5.8	3.1	4.0	-2.1
Belgium	7.2	1.3	7.1	2.4	4.7	-4.6
Denmark	10.5	5.8	7.8	8.2	9.2	5.7
Finland	14.2	13.5	11.3	10.7	11.2	6.0
Netherlands	6.7	7.0	6.5	5.4 a/	6.1	4.6 a/
Norway	8.7	9.7	7.8	6.2	5.9	5.3
Sweden d/	10.6	6.7	8.8	9.2	9.9	9.4
Switzerland	4.4	-2.3	-0.7	0.2	1.4	-2.9
Primary producing countries						
Australia e/	10.8	15.0	11.4	10.0	11.8	6.9
Cyprus	10.7 f/	10.7	3.4	...	12.3	...
Greece	15.8	6.8	14.0	10.5	12.9	8.4
Ireland	16.9	25.7	19.7	16.5 a/	22.0	4.7 a/
New Zealand	13.1 f/	12.1	25.3	...	13.7	...
Portugal	17.4	13.4	19.1	28.7	42.8	13.0
South Africa	14.0	17.3	15.1	13.0	12.9	9.9
Spain g/	12.5 f/	12.6	15.3	...	22.7	...
Turkey	19.6	10.1	15.5	24.6 a/	23.9	34.0 a/
Yugoslavia	15.1	21.8	6.6	9.4	9.9	11.1

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

a/ Estimate based on partial data.

b/ Industrial products.

c/ Finished goods.

d/ Domestic supply.

e/ Manufacturing output.

f/ 1971-1976.

g/ Producers' prices of industrial goods.

Table II-12. Selected developed market economies: changes in hourly earnings in manufacturing, 1971-1977

(Percentage change from corresponding period of preceding year)

	Average, 1971-1976	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries								
Canada	11.9	15.9	13.7	...	12.0	11.1	10.9	...
France	15.4	17.3	14.7	...	15.1	13.2	12.4	...
Germany, Federal Republic of	8.9	8.1	6.3	...	7.9	7.6	7.5	...
Italy	20.8	26.7	21.1	...	33.5	31.1	24.6	...
Japan	17.7	11.4	12.6	...	11.1	11.3	9.1	...
United Kingdom	18.6	30.1	19.8	...	7.0	4.2	3.3	...
United States of America	7.8	9.2	7.7	8.4	8.0	8.6	8.3	8.8
Other industrial countries								
Austria	13.0	19.8	9.9	...	8.2	9.9	9.6	...
Belgium	16.5	20.0	11.1	...	9.1	8.3	9.6	...
Denmark	16.7	19.1	11.9	...	9.3	10.0	10.4	...
Finland	17.8	20.7	15.0	...	8.9	8.7	9.5	...
Netherlands	13.2	13.6	8.3	...	5.3	5.8	8.1	...
Norway	14.7	19.5	16.8	...	15.8	10.8	8.8	...
Sweden	13.4	14.8	17.9	...	8.1	3.7	6.1	...
Switzerland	7.4	7.4	1.6	...	2.1	1.2	1.7	...
Primary producing countries								
Australia	16.6	19.3	14.7	...	11.7	11.7	11.1	...
Greece	20.7	24.7	28.6	...	24.0	22.7	...	...
Ireland	19.9	28.8	17.1	...	15.1	...	...	...
New Zealand	11.6	14.4	11.7	...	17.2	10.0	...	...
Spain	24.7	30.3	30.2	...	27.0	23.1	...	...
Yugoslavia	19.6	21.3	14.1	...	...	...	...	...

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, and Organisation for Economic Co-operation and Development, Main Economic Indicators.

Table II-13. Selected developed market economies: changes in unit labour costs, 1975-1977

(Percentage change from corresponding period of preceding year)

	1975	1976	1977 First quarter	1977 Second quarter	1977 Third quarter
Major industrial countries					
Canada	15.5	8.4	6.4	5.6	6.2
France	23.8	4.9	7.0	9.7	11.8
Germany, Federal Republic of a/	6.8	-2.1	2.9	3.6	3.6
Italy	39.8	9.3	...	...	...
Japan	22.3	-3.1	0.5	4.4	5.5
United Kingdom	31.8	13.3	9.3	11.9	...
United States of America	12.4	1.6	5.5	6.2	7.0
Other industrial countries					
Austria	23.4	1.2	-	6.3	1.3
Denmark	14.5	1.3	6.9	15.4	5.3
Finland	24.6	10.4	11.0	14.9	10.1
Netherlands	16.4	0.5	-2.5	1.7	...
Norway	33.7	16.0	20.7	15.4	8.3
Sweden	25.2	14.7	10.1	6.3	9.0
Switzerland	14.2	7.1	-4.5	-3.3	-1.4
Primary producing countries					
Australia	9.2	11.4	7.7	8.0	10.0
Greece	20.6	23.3	25.2	30.7	...
Ireland	26.2	8.8	11.5	...	...
Spain b/	33.3	14.6	13.2	18.9	...
Yugoslavia	20.2	13.8	...	...	...

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on United Nations, Monthly Bulletin of Statistics, and Organisation for Economic Co-operation and Development, Main Economic Indicators.

a/ Mining and manufacturing.

b/ Industry.

Table II-14. Developed market economies: changes in the volume of exports, 1971-1977

(Percentage change from corresponding period of preceding year)

	Average, 1971-1976	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries								
Canada	3.7	-7.5	11.1	9.0	13.3	7.6	4.5	10.6
France	7.6	-4.1	9.1	6.5	9.0	3.9	7.9	5.9
Germany, Federal Republic of	7.6	-10.4	13.6	5.1	6.7	5.8	2.5	5.3
Italy	7.1	2.2	12.1	...	7.9	12.3	2.1	...
Japan	10.1	0.8	22.0	5.1	5.0	3.4	5.2	6.7
United Kingdom	5.3	-2.3	8.8	9.3	9.4	9.4	14.4	4.4
United States of America	8.3	-2.2	3.4	-0.6	1.9	0.3	0.9	-3.6
Other industrial countries								
Austria	8.0	-7.4	16.0	2.6	10.7	-	3.4	-
Belgium	6.6	-7.4	14.0	2.2 a/	11.9	6.0	1.9	-7.3 a/
Denmark	3.9	-3.8	3.0	...	8.0	-0.9	5.2	...
Finland	3.6	-17.4	17.0	9.4	25.3	0.9	11.2	5.1
Netherlands	7.4	-3.8	13.0	-1.8	3.7	-1.8	-1.9	-5.7
Norway	7.8	4.2	15.0	...	-1.7	4.4	-11.3	...
Sweden	4.8	-9.9	5.0	...	-	-0.9	...	...
Switzerland	4.5	-8.3	11.0	11.7	12.6	9.0	14.3	9.4
Primary producing countries								
Australia	3.9	8.7	10.0	...	5.0	2.8	-7.5	...
Cyprus	4.0	-11.4	63.7	30.4 a/	64.4	56.5	14.9	10.8 a/
Greece	17.0	8.9	15.4	...	-2.0	-2.7	2.0 a/	...
Ireland	6.5	7.8	3.9	20.8 a/	20.8	10.1	26.9	24.3 a/
Malta	23.5	11.4	43.0	...	48.9	22.1	...	...
New Zealand	2.9	2.0	19.0	...	17.0	2.9	3.6	...
South Africa	6.3	-1.0	7.0	...	12.1	15.8	17.1	...
Spain	10.6	3.1	14.9	...	7.6	26.9	3.8	...
Turkey	5.2	-7.4	33.0	...	-50.0	-19.0	...	...

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

a/ Estimate based on partial data.

Table II-15. Developed market economies: changes in the volume of imports, 1971-1977

(Percentage change from corresponding period of preceding year)

	Average, 1971-1976	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries								
Canada	8.7	-5.7	7.4	0.5	1.8	3.6	-0.8	-2.7
France	8.7	-7.1	20.8	0.7	7.0	1.2	-2.2	-2.9
Germany, Federal Republic of	6.6	2.6	16.5	5.1	9.0	3.3	4.8	3.5
Italy	3.6	-11.4	15.2	...	5.8	4.8	-14.2	...
Japan	6.4	-12.7	10.3	3.0	9.3	4.2	-2.0	1.3
United Kingdom	4.8	-7.1	6.4	2.3	8.6	4.5	-0.1	-3.1
United States of America	4.8	-11.2	21.9	12.1	18.7	18.5	8.5	5.5
Other industrial countries								
Austria	8.4	-6.5	23.0	9.8	13.4	5.8	11.3	9.6
Belgium	6.8	-5.7	14.0	0.7 a/	9.9	0.8	2.0	-1.7 a/
Denmark	5.2	-5.7	17.0	...	5.2	-	-4.5	...
Finland	4.0	-	-4.0	-9.4	-4.6	4.8	-14.3	-13.1
Netherlands	3.8	-2.9	11.0	4.5	15.5	6.4	4.8	-7.1
Norway	6.5	-	11.0	...	7.2	12.3	12.4	...
Sweden	7.2	3.1	5.0	...	11.2	-3.8	...	...
Switzerland	0.9	-18.0	13.0	10.6	14.4	9.9	12.3	4.8
Primary producing countries								
Australia	5.6	-20.6	13.0	...	14.0	5.5	-0.9	...
Cyprus	0.1	-30.3	53.6	32.4 a/	52.7	48.6	35.2	7.0 a/
Greece	6.8	-2.3	8.1	...	6.1	14.7	-7.6 a/	...
Ireland	4.5	13.4	15.2	17.4 a/	15.9	9.0	15.8	12.0 a/
Malta	5.8	-2.7	18.6	...	21.4	13.6	...	...
New Zealand	4.2	-21.9	2.0	...	-8.7	3.1	1.0	...
South Africa	-0.7	-9.1	-14.0	...	-27.2	-29.3	-14.5	...
Spain	10.3	-0.8	13.4	...	-0.7	-8.2	-14.4	...
Turkey	14.3	14.9	17.0	...	18.6	26.2	...	...

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

a/ Estimate based on partial data.

Table II-16. Developed market economies: changes in the terms of trade, a/ 1971-1977

(Percentage change from corresponding period of preceding year)

	Average, 1971-1976	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries								
Canada	2.5	-4.3	2.1	-4.8 b/	-2.6	-2.5	-5.6	-6.8 b/
France	-1.3	7.5	-1.3	-1.5	-4.9	-5.9	-1.1	1.4
Germany, Federal Republic of	-0.5	7.3	-1.6	0.3 b/	0.8	-0.4	0.8	0.4 b/
Italy	-5.1	6.7	-3.8	...	-1.7	11.9	4.0	...
Japan	-6.4	-6.6	-2.9	7.2 b/	10.4	7.8	4.4	6.6 b/
United Kingdom	-3.7	9.5	1.0	2.3	-0.9	0.1	2.0	7.8
United States of America	-3.5	3.5	0.5	-3.1	-2.3	-2.5	-3.9	-4.5
Other industrial countries								
Austria	-0.4	1.1	-2.5	...	0.4	1.7	-3.1	...
Belgium	-0.5	-0.1	-2.4	-0.8 b/	2.0	-1.1	0.2	-1.9 b/
Denmark	-0.8	5.2	-0.8	...	-4.3	-5.1	-2.8	...
Finland	0.6	7.7	-3.6	...	1.0	-2.6	-2.1	...
Netherlands	-0.9	0.2	-0.4	-1.8 b/	1.6	1.4	-0.6	-0.1 b/
Norway	0.9	2.3	-4.1	...	0.9	-1.3	-4.8	...
Sweden	0.7	10.8	-0.5	...	1.2	-2.5	...	...
Switzerland	1.0	7.7	4.7	-3.9	-4.1	-6.3	-3.6	-0.9
Primary producing countries								
Australia	-0.8	-16.8	-3.3	...	-7.0	-7.4	...	...
Cyprus	0.8	3.3	6.9	...	-6.8	-3.7	0.4	...
Greece	-2.6	-5.9	-0.1	...	-1.9	1.8	...	...
Iceland	-1.1	-15.3	7.4	...	...	...	...	...
Ireland	0.3	-2.1	3.8	...	-1.4	-4.3	-2.1	...
Malta	-2.5	-0.5	5.1	...	-7.0	-7.0	...	...
New Zealand	-3.0	-22.7	5.2	...	7.3	4.9	-0.4	...
South Africa	-1.4	-10.9	-4.1	...	-2.8	1.2	...	...
Spain	-6.4	-1.9	8.6	...	...	...	...	...
Turkey	-3.3	-9.7	7.2	...	1.4	0.8	...	...

(Source and foot-notes on following page)

(Source and foot-notes to table II-16)

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

a/ Based on unit value indices of exports and imports expressed in dollars.

b/ Estimate based on partial data.

Table II-17. Developed market economies: balances on trade, services and private transfers, and current account, 1975-1977
(Billions of dollars)

	Trade balance a/			Balance on services and private transfer			Current account balance b/		
	1975	1976	1977 c/	1975	1976	1977 c/	1975	1976	1977 c/
Developed market economies	3.09	-19.96	-23.80	6.84	9.99	8.40	9.93	-9.98	-15.40
Major industrial countries	25.18	3.95	3.40	-2.02	3.01	1.60	23.15	6.96	5.00
Canada	-0.40	1.39	2.90	-4.20	-5.58	-7.20	-4.59	-4.19	-4.30
France	1.51	-4.67	-2.80	-0.41	-0.32	0.50	1.10	-4.99	-2.30
Germany, Federal Republic of	17.67	16.68	19.80	-10.17	-9.49	-12.40	7.50	7.18	7.40
Italy	-1.14	-4.04	.40	1.92	2.30	3.20	0.78	-1.74	3.60
Japan	5.03	9.89	17.49	-5.45	-6.00	-6.26	-0.42	3.90	11.23
United Kingdom	-6.55	-5.97	-3.20	3.63	4.87	5.30	-2.92	-1.10	2.10
United States of America	9.05	-9.32	-31.20	12.65	17.22	18.50	21.70	7.90	-12.70
Other industrial countries	-4.62	-7.98	...	4.02	3.85	...	-0.60	-4.13	...
Austria	-1.42	-2.50	-3.87	1.09	1.03	0.90	-0.33	-1.48	-2.98
Belgium	0.55	-0.87	...	0.66	0.90	...	1.21	0.03	...
Denmark	-1.30	-2.83	-2.66	0.70	0.66	0.61	-0.60	-2.17	-2.04
Finland	-1.62	-0.58	0.30	-0.53	-0.57	-0.50	-2.15	-1.15	-0.20
Netherlands	1.30	1.54	-0.30	0.71	0.95	0.50	2.01	2.49	0.20
Norway	-2.92	-3.57	-4.30	0.58	-0.02	-0.50	-2.34	-3.59	-4.80
Sweden	0.70	0.40	0.10	-1.82	-2.32	-2.90	-1.12	-1.92	-2.80
Switzerland	0.10	0.43	...	2.62	3.23	...	2.72	3.66	...
Primary producing countries	-17.47	-15.93	...	4.84	3.13	...	-12.62	-12.80	...
Australia	2.22	2.02	0.90	-2.24	-2.99	-2.90	-0.02	-0.97	-2.00
Cyprus	-0.16	-0.16	...	0.07	0.10	...	-0.09	-0.06	...
Greece	-2.36	-2.69	-3.00	1.35	1.56	1.80	-1.01	-1.13	-1.20
Iceland	-0.14	-0.03	...	-0.00	0.00	...	-0.14	-0.02	...
Ireland	-0.49	-0.65	...	0.21	0.18	...	-0.28	-0.47	...
Malta	-0.16	-0.14	...	0.21	0.20	...	0.05	0.06	...
New Zealand	-0.76	-0.05	0.40	-0.63	-0.70	-0.90	-1.39	-0.75	-0.50
Portugal	-1.67	-2.10	...	0.87	0.87	...	-0.80	-1.23	...
South Africa	-0.73	-0.36	2.50	-1.85	-1.72	-1.60	-2.58	-2.08	0.90
Spain	-7.39	-7.31	...	3.92	3.03	...	-3.47	-4.27	...
Turkey	-2.83	-2.61	...	0.98	0.64	...	-1.86	-1.97	...
Yugoslavia	-2.99	-1.88	...	1.95	1.96	...	-1.03	0.08	...

(Source and foot-notes on following page)

(Source and foot-notes to table II-17)

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

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 Austria, Denmark and Japan, for which the figures are final ones.

Table II-18. Developed market economies: market exchange rates, end of period

(Dollars per unit of domestic currency, 1970 = 100)

	1975	1976	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries						
Canada	99.5	100.2	95.7	95.4	94.2	92.4
France	123.0	111.0	111.0	112.2	112.5	117.3
Germany, Federal Republic of	139.0	154.4	152.7	156.0	158.1	173.3
Italy	91.2	71.2	70.6	70.3	70.6	71.0
Japan	118.3	123.3	130.2	134.9	136.0	150.5
United Kingdom	84.5	71.1	71.9	71.9	73.0	79.6
Other industrial countries						
Austria	139.5	154.0	152.4	155.7	156.5	170.6
Belgium	125.7	138.1	135.7	137.9	139.0	150.8
Denmark	121.2	129.3	127.9	124.2	121.6	129.6
Finland	108.3	110.7	109.8	102.9	100.4	103.8
Luxembourg	125.7	138.0	135.7	137.9	139.0	150.8
Netherlands	133.8	146.4	144.4	145.5	146.4	157.8
Norway	127.7	137.6	136.2	134.2	129.6	138.8
Sweden	117.7	125.1	123.0	117.4	106.8	110.6
Switzerland	164.7	176.1	169.7	175.4	184.5	214.7
Primary producing countries						
Australia	112.7	97.4	98.9	100.0	99.3	102.4
Cyprus	105.9	101.2	100.8	101.6	101.9	109.0
Greece	84.2	81.0	80.3	81.1	81.7	84.5
Iceland	51.4	46.3	45.9	45.1	42.2	41.2
Ireland	84.5	71.1	71.9	71.9	73.0	79.9
Malta	103.2	97.7	97.3	98.0	98.7	105.6
New Zealand	93.5	85.1	86.1	86.7	87.0	91.4
Portugal	104.7	91.1	74.2	74.4	70.5	72.1
South Africa	82.5	82.5	82.5	82.5	82.5	82.5
Spain	116.4	101.9	101.3	100.0	82.2	86.0
Turkey	98.5	89.6	84.4	84.4	76.8	76.8
Yugoslavia	69.5	68.6	68.6	68.5	68.3	67.8

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

Table II-19. Selected developed market economies: index numbers of effective exchange rates, period average

(1970 = 100)

	1975	1976	1977	1977 First quarter	1977 Second quarter	1977 Third quarter	1977 Fourth quarter
Major industrial countries							
Canada	101.1	106.3	97.8	101.6	99.0	97.1	93.4
France	109.3	103.7	98.5	98.5	98.5	99.0	98.1
Germany, Federal Republic of	127.6	132.3	143.1	140.0	141.4	144.0	146.9
Italy	77.8	63.7	58.6	59.4	58.8	58.6	57.6
Japan	111.7	115.7	128.1	120.3	124.9	129.0	138.1
United Kingdom	78.3	66.3	63.0	62.7	62.5	62.7	64.2
United States of America	83.5	87.7	86.7	88.0	87.4	86.8	84.7
Other industrial countries							
Austria	127.9	131.2	141.7	138.9	140.4	142.9	144.5
Belgium	106.6	107.1	111.9	111.1	111.9	112.4	112.3
Denmark	111.1	113.5	113.8	116.6	114.2	113.1	111.1
Netherlands	113.5	115.8	121.5	121.2	122.0	121.5	121.4
Norway	114.5	115.9	116.6	119.1	118.5	116.2	112.7
Sweden	108.8	109.2	105.9	112.8	108.8	104.4	97.6
Switzerland	145.0	157.0	161.5	150.7	157.9	158.7	160.5

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

Table II-20. Selected developed market economies: export prices adjusted for changes in effective exchange rates

(1970 = 100)

	1975	1976	1977	1977			
				First quarter	Second quarter	Third quarter	Fourth quarter
Major industrial countries							
Canada	176.4	190.2	184.9	187.7	186.0	188.6	179.8
France	171.1	177.0	184.8	182.3	182.8	187.5	186.9
Germany, Federal Republic of	168.0	177.7	194.6	190.8	192.2	195.7	199.5
Italy	158.8	156.5	172.8	168.5	172.0	177.4	172.9
Japan	167.8	170.4	195.1	190.2	193.7	194.3	200.5
United Kingdom	155.3	159.2	179.1	172.0	175.4	180.8	188.7
United States of America	147.1	160.1	165.9	166.6	167.9	165.9	163.0
Other industrial countries							
Austria	171.4	175.8	195.5	193.1	169.6	195.8	200.9
Belgium	149.2	157.4	166.7	164.4	176.6	167.5	167.3
Denmark	173.3	188.9	202.6	201.7	191.5	204.7	204.4
Netherlands	168.0	181.8	196.8	193.9	198.9	196.8	196.7
Norway	184.3	191.2	200.6	203.7	203.8	201.0	...
Sweden	193.7	208.6	...	225.6	222.0	...	...
Switzerland	188.5	204.1	213.2	198.9	211.6	207.9	210.3

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

Table II-21. Developed market economies: forecast of growth rates of gross domestic product, 1978

(Percentage)

	Actual, 1977 a/	Forecast, 1978 OECD	NIESR	LINK	EEC
Developed market economies	3.7	3.75	3.9		
Major industrial countries	4.0	4.0	4.1	4.3	
Canada	2.6	3.75	4.0	3.7	
France	2.4	3.25	3.3	4.0	2.7
Germany, Federal Republic of	2.4	3.25	3.3	3.75	3.1
Italy	1.7	1.0	1.5	2.0	1.7
Japan	5.1	5.0	6.0	5.4	
United Kingdom	1.0	3.0	2.7	2.4	3.5
United States of America	4.9	4.25	4.3	4.6	
Other industrial countries	1.7	1.9	2.2 b/		
Austria	3.5	1.5	1.5	1.8	
Belgium	2.7	2.5	2.5	4.8	2.3
Denmark	1.5	1.0	1.5		1.5
Finland	-0.5	-		0.1	
Luxembourg	1.7				1.4
Netherlands	2.5	2.75	2.3	3.2	2.1
Norway	3.9	6.0	6.0		
Sweden	-2.4	-	-	0.3	
Switzerland	4.0	2.0	2.5		
Primary producing countries	2.3	2.2			
Australia	2.0	3.25	2.5	3.0	
Greece	3.5	4.5			
Ireland	5.3	5.5	5.8		6.0
New Zealand	-1.0	2.0	-		
South Africa	1.5		2.5		
Spain	2.4	0.5	1.3		
Turkey	5.0				
EEC total	1.9	2.75	2.8		2.8
OECD Europe	2.0	2.5	2.6		

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat based on Organisation for Economic Co-operation and Development, Economic Outlook (Paris), No. 22 (December 1977); National Institute of Economic and Social Research, National Institute Economic Review (London), February 1978; forecasts presented during the March 1978 meeting of Project LINK at United Nations Headquarters; and EEC Commission estimates of March 1978.

a/ Estimates based on partial data.

b/ Rate of growth for all developed market economies except the seven major industrial countries.

Table II-22. Developed market economies: forecast of the rate of change of consumer prices

(Percentage)

	Actual, 1977	Forecast, 1978			
		OECD	NIESR	EEC	LINK
Developed market economies	9.3	7.0	7.6		
Major industrial countries	8.5	6.5	7.0		6.7
Canada	8.0	6.5	5.0		7.6
France	9.5	8.75	8.0	7.0	8.7
Germany, Federal Republic of	3.9	4.0	3.8	3.5	3.5
Italy	18.4	12.75	13.0	12.0	12.3
Japan	8.1	6.0	5.5		6.95
United Kingdom	15.9	9.0	9.0	8.4	9.6
United States of America	6.5	5.75	7.0		6.0
Other industrial countries	8.0	7.8	10.5 a/		
Austria	5.5	5.25			4.6
Belgium	7.1	7.0		5.5	4.9
Denmark	11.1	11.5		10.5	
Finland	12.6	11.0			7.5
Luxembourg	6.7			4.0	
Netherlands	6.7	6.0		5.5	5.9
Norway	9.1	9.0			
Sweden	11.4	12.0			11.7
Switzerland	1.3	1.75			
Primary producing countries	17.8	16.1			
Australia	12.3	8.0			6.6
Greece	12.1	11.5			
Ireland	13.6	10.0		6.5	
New Zealand	14.3	12.75			
Spain	24.5	24.5			
EEC total	10.6	7.5		6.9	
OECD Europe	11.0	8.75			

Source: See table II-21.

a/ Rate of change for all developed market economies except the seven major industrial countries.

Table II-23. Developed market economies: forecast of balances on current account, a/ 1978

(Billions of dollars)

	Actual, 1977 b/	Forecast, 1978		
		OECD	NIESR c/	LINK
Developed market economies	-29.3	-22.5 d/	-20.3	
Major surplus countries	17.7	18.0		
Germany, Federal Republic of	3.4	3.0	9.3	0.3
Japan	11.0	10.0	13.2	7.3
Netherlands	-	1.75		1.0
Switzerland	3.3	3.25		
Major deficit countries	-5.9	-0.5	0.6	-2.8
Canada	-4.5	-3.75	-5.7	-3.0
France	-3.6	-2.0	0.2	-2.0
Italy	2.1	1.75	3.6	1.4
United Kingdom	0.1	3.5	2.5	0.8
United States of America	-17.0	-19.25	-21.2	-19.3
Other developed market economies	-24.1	-20.75 e/	-22.2 f/	

Source: See table II-21.

a/ Balance on trade, services and total (private plus government) transfers.

b/ Preliminary estimates based on data for the first three quarters of the year and estimates of the Organisation for Economic Co-operation and Development, Economic Outlook (Paris), No. 22 (December 1977).

c/ Estimates in SDR converted to dollars at the average rate for 1977 (1 SDR = $1.16752).

d/ OECD countries only.

e/ Other OECD countries only.

f/ Including Netherlands and Switzerland.

Chapter III

THE CENTRALLY PLANNED ECONOMIES

Eastern Europe and the Union of Soviet Socialist Republics

Overview

Economic trends in the European centrally planned economies reflected policies aimed at consolidating growth and reducing external and internal imbalances. Output growth slowed down in 1977 to the lowest rate experienced since the early 1960s, slightly over 4 per cent for the group as a whole and generally below the pace anticipated in the national economic plans. The expansion of aggregate domestic final uses, though over-all somewhat above that planned, appears to have been generally in balance with output growth. Imports grew less than exports and the external balance of the group improved substantially, though most countries remained in external deficit.

This pattern is in general in conformity with the growth strategy formulated for most of the socialist countries in their medium-term development plans for 1976-1980. 1/ Domestic and international trends contributed to the lowered medium-term growth outlook reflected in these plans.

On the one hand, the anticipated tightening of labour supply in all countries and the rising capital costs of raw material, fuel and productive infrastructure development reduced the growth potential. Supply bottle-necks arising from intersectoral development imbalances affected the efficiency of the production and investment process and needed to be worked off. In a number of countries housing and urban infrastructure claimed an increasing share of investible resources for both social and economic reasons. But in some countries the investment rate appears to have approached an upper limit. On the other hand, the global economic developments of the early 1970s and the attendant worsening in the terms of trade of most of the smaller socialist countries required a restructuring of production and use patterns - including increased stress on the production of exportables - that was itself bound to reduce growth at least in the short run. In some countries, especially those with a large volume of maturing external debt, concern about increasing protectionism and the weakness of demand growth in their western export markets forced consideration of development patterns involving slower import growth.

These factors, which impinged upon different countries with varying intensity, were reflected in the national medium-term plans of almost all countries (with the exception of Romania) in a strategy of eased expansion of claims on resources and reduced output growth, increased emphasis on export production and tightened import policies. However, some of the assumptions none the less turned out to be over-optimistic in the first two years of the plan period with respect to both internal and external developments and additional adjustments were required in most countries. In Poland, where economic strains had built up to the greatest

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1/ 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, in much greater detail, Economic Survey of Europe in 1976, part II (United Nations publication, Sales No. E.77.II.E.11).

degree in the wake of a very high expansion pace in the first half of the 1970s, this involved an about-turn of policy on a very broad front in a very short time - a policy change aptly called an "economic manoeuvre" - with the aim of reordering priorities maximally towards the redressing of imbalances both in the domestic consumer market and in external economic relations. In other countries, changes were less drastic but also involved some scaling down of growth goals and, in several cases, the revision of investment programmes to take account of emerging bottle-necks and supply tensions. Such reviews of structural programmes took place in 1977 in Czechoslovakia and Hungary - where special attention is also being paid to the implementation mechanism of the economic programme - and early in 1978 in Bulgaria. In Romania, in some contrast to the policy patterns in other Eastern European countries, a programme supplementary to the current five-year plan was adopted in 1977; in this supplementary programme most of the aggregate production and final use targets are raised, in part to compensate for shortfalls in the early implementation but in part - especially in the sphere of consumer incomes - to go well beyond the original goals for 1980.

The short-run policy objectives of the centrally planned economies for 1978 reflect these revisions and the priority given to reducing strains, improving efficiency and consolidating rather than accelerating growth. The over-all production target for the group as a whole is near the reduced growth pace attained in 1977 and is based on the anticipation of somewhat diminished growth in industrial output and substantially accelerated growth in agricultural output. Except for a slight acceleration in the Soviet Union and steeply accelerated growth in Romania, investment expansion is generally to be lower than in 1977; it is expected to cease altogether in Hungary and Poland. A further improvement in the foreign balance - especially in trade with the market economies - through reduced import growth is an explicitly formulated target in the national plans of Czechoslovakia, Hungary and Poland and an implicit goal in several other cases.

Production and supplies

Total output (real net material product - NMP) of the centrally planned economies of Eastern Europe 2/ and the USSR increased by 4.3 per cent in 1977, which was markedly below the 5.5 per cent expansion of the past two years, the 6.2 per cent average growth rate for the decade to date and the planned rate of about 5 per cent. Growth slowed down in the Soviet Union, where national income increased by 3.5 per cent, 3/ and also in Bulgaria, Poland and Romania. In the other Eastern European countries, where output growth had been relatively low in

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

3/ In the USSR, plan targets and the achievement for the current year are reported in terms of the growth of NMP domestically utilized. Since the Soviet Union went from a foreign trade deficit in 1976 to a foreign trade surplus in 1977, NMP produced must have grown at a somewhat higher rate than domestic allocations - perhaps at 4 to 4.2 per cent, as against 5.2 per cent in 1976.

1976, results were better in 1977 and the average growth rate for the group - at 6.1 per cent - was the same as in the preceding year (see table III-1).

With the exception of Hungary, no country reached the growth target of its annual plan for 1977; and on the basis of the results of the first two years all countries are now to some degree lagging with respect to the targets of the 1976-1980 medium-term plan. This shortfall is not expected to be eliminated in 1978, since plan targets for that year are very similar to the rates attained in 1977.

The dominant factor accounting for the 1977 pattern of aggregate net output growth in the region appears to have been the year's agricultural output, which generally fell short of expectations though an absolute decline was registered only in the two Balkan countries. However, other factors also contributed to the reduced or below-plan over-all growth. Although industry generally met its targets in terms of gross output, productivity gains and input economies which were to have raised the sector's net contribution did not always materialize. In several countries bottle-necks appear to have developed in energy supplies and in transport and generally the performance of the construction sector fell short of the plans. 4/

Industry

Gross industrial output of the group increased by 6.3 per cent in 1977, as compared to 5.7 per cent in the preceding year and an annual average of 7.8 per cent in the first half of the decade. Industrial growth in Eastern Europe of almost 8 per cent was about the same as in 1976, while in the Soviet Union output growth accelerated from about 5 to about 6 per cent (table III-2). Except for Bulgaria, all countries exceeded the targets of the annual plans for gross industrial expansion. Gains in industrial labour productivity, which ranged from 5 to 10 per cent in Eastern Europe and recovered to 4 per cent in the Soviet Union from last year's low level, accounted for the bulk of the output increment (table III-3). 5/

The substantial industrial growth and the satisfaction of aggregate growth targets were accompanied by a quite varied performance in different countries with regard to sectoral goals; however, several aspects appear to be of broader regional significance. Above-trend rates of output growth in the food-processing sector contributed to the acceleration of industrial expansion and improved consumer

4/ Data on trends in value added by sector of origin are generally not yet available; hence the contributions of individual sectors to the slowing of national income growth cannot be pin-pointed. In Bulgaria and Romania, the disruptions of the March 1977 earthquake must have raised production costs, thus curbing net output growth in industry. Import programmes for industrial inputs may have been cut to the quick in some countries in the search for improvements in the external balance, and this would affect production efficiency.

5/ The contribution of productivity gains to industrial output increments varied from 72 per cent in the USSR, about 80 per cent in Czechoslovakia and Romania and about 96 per cent in Bulgaria, the German Democratic Republic and Poland to over 100 per cent in Hungary.

supplies in most countries for which data are available, with relatively very large increases in several cases (5 to 6 per cent in the USSR and Czechoslovakia, 10 per cent in Hungary and Romania); on the other hand, a contraction in this sector played a significant role in the below-plan industrial growth in Bulgaria. The shift in the structure of industrial output in favour of engineering, metal-working and chemicals continued in all countries with above-average rates of growth for these sectors; however, expansion rates generally slowed down somewhat and in the Soviet Union and several Eastern European countries growth targets in the chemical and petro-chemical branches were not met. This may have been connected with the relative lag in growth of the fuel and energy sectors, where expansion generally slowed down; in a number of countries - most important, in the Soviet Union, the region's main supplier - production targets were not reached.

The production of basic fuel (petroleum, natural gas and coal, aggregated in terms of coal equivalents) increased by an estimated 3.7 per cent in 1977, well below the expansion rate of the recent past (almost 5 per cent annually in 1970-1976) and the over-all growth of output and requirements in the region. There was a slight acceleration in the expansion of coal production, which grew by 2 per cent (as against 1.5 per cent annually in 1970-1976) but a slowdown in petroleum (4.7 per cent, as against 6.4 per cent) and natural gas (5.6 per cent, as against 8.2 per cent). In caloric terms, about 50 per cent of the increase in the region's basic fuel output was provided by petroleum and another 32 per cent by natural gas, thus further increasing the share of these two fuels in total supplies produced in the area. 6/ Almost all of the gain in fuel production was in the Soviet Union, where output increased by 4.5 per cent. In Eastern Europe, where all countries but Poland are net fuel importers, aggregate fuel output grew by less than 1 per cent. The production of low-calorie soft coal was expanded in Czechoslovakia and the German Democratic Republic, as was hard-coal extraction in Poland, but these gains were partially offset by declining hard-coal production in several countries and by a downturn in the output of oil and natural gas in Romania. Electricity generation increased by 3.8 per cent, much below the trend rate for the first half of the decade (about 7 per cent) and short of plan targets in the Soviet Union and several Eastern European countries.

6/ Eastern Europe and USSR: change in the structure of basic fuel production, 1970-1977

	Output a/			Structure (percentage)		
	1970	1976	1977	1970	1976	1977
Petroleum	522.1	756.5	792.2	36.0	39.3	39.6
Natural gas	260.1	418.3	441.2	18.0	21.7	22.1
Hard coal	490.5	570.4	578.6	33.8	29.6	29.0
Brown coal	176.6	181.5	185.3	12.2	9.4	9.3
Total	1,449.4	1,926.7	1,997.3	100.0	100.0	100.0

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

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.

Data on trade in fuels and energy and on domestic consumption are not yet available but qualitative reports indicate that in 1977 in several Eastern European countries - especially Czechoslovakia and Poland - the expansion of aggregate energy supplies lagged behind the growth of requirements. Measures to economize on energy consumption are strongly stressed in the national economic plans of all countries, spurred by the rising cost of fuel imports and the relatively high ratio of energy consumption per unit of national income in Eastern Europe. 7/

Among other production trends, growth in ferrous and non-ferrous metallurgy was generally modest and in a number of cases short of plan targets. Steel output of the European socialist countries jointly increased by less than 3 per cent, but there was a large (14 per cent) increase in Poland where a major investment project - the Katowice foundry works - had been commissioned at the end of the preceding year. There was a pronounced slowdown in the Soviet Union, where steel production and the output of rolled products and steel pipe increased by 1 per cent or less and ferrous ore extraction stagnated, after increasing at average rates of 4 to 5 per cent over the past six years. 8/ Growth of the construction material sector continued at average or above-average rates in all of the Eastern European countries but slowed down further - to only 3 per cent - in the Soviet Union. Expansion in light industry was generally below the industrial average; however, in most countries it was faster than in the preceding year, owing in part to the improved performance of sectors relying on inputs from agriculture.

In most countries of the group, the rate of industrial expansion during the first two years of the current medium-term plans has been below the five-year average growth pace set in these programmes, though targets of the annual plans have generally been fulfilled. Only in Poland and Romania have the medium-term target rates been exceeded in 1976-1977. The easing of industrial growth targets at the beginning of the five-year plan period reflected both material difficulties in expanding output and the high priority assigned to a rapid improvement of internal and external balance. Apparently this policy stance is to be continued at least for another year, since the annual plans for 1978 indicate no intention of

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7/ Without precise quantification, this high ratio can be shown roughly by a comparison of per capita energy consumption levels. In 1975, per capita energy usage in Czechoslovakia and the German Democratic Republic of about 7 tons of coal equivalent substantially exceeded that in Sweden (6.2 tons), the highest consumer in Western Europe. Consumption levels of 4.8 to 5.0 tons in Bulgaria and Poland were comparable to per capita usage of 4.8 to 5.3 tons in Finland, the United Kingdom and the Federal Republic of Germany, countries with substantially higher income levels, and the same can be noted for Hungary and Romania, where usage (3.6 tons to 3.8 tons) was at the level of Switzerland, Austria and France (3.6 to 3.9 tons). See World Energy Supplies, 1971-1975 (United Nations publication, Sales No. E.77.XVII.4). It needs no stressing that, apart from usage efficiency, differences in climate, production structure, location and transport distances and other factors are reflected in the usage-level variations.

8/ The main reason for this slowdown appears to have been raw material shortages stemming from delays in the commissioning of new mining facilities. The Soviet plan for 1978 assigns a high priority to the acceleration of production growth in ferrous metallurgy, with increases of about 4 per cent each in the production of steel, rolled products and pipe.

accelerating growth in order to catch up to the medium-term goals. 9/ A further easing of industrial growth is expected in the USSR and Poland; in the other countries of the group the 1978 growth targets are uniformly below those of the five-year plans, though in some cases slightly above the 1977 achievement (table III-2). For the region as a whole, industrial output would on these plans grow by 5.2 per cent, about 1 per cent less than in 1977.

Agriculture

Gross agricultural output of the region increased by less than 3 per cent in 1977, a somewhat lower rate than in the preceding year. The increase was 3 per cent in the Soviet Union, where the grain harvest did not match the bumper crop of 1976, and about 2 per cent in the Eastern European socialist countries. Substantial gains were attained in Czechoslovakia and Hungary but production was stagnant in Poland and declined in the two Balkan countries (table III-4).

The results in almost all countries were below the targets of the annual plans; these plans had generally, after several bad years with falling output in most countries, reckoned with average or above-average climatic conditions that would have produced a significant recovery effect on agricultural growth rates. In the event, production in the crop sector was held down by adverse weather conditions during the growing season in several countries, while in others - notably in Poland but also in the German Democratic Republic and parts of Czechoslovakia - excellent standing crops suffered from moist weather and heavy rainfall during the harvesting season. Since livestock herds and animal production resumed their growth after the contraction of 1975-1976 while crop output generally remained below earlier peaks, fodder balances continued to be strained and import requirements for animal feed did not fall as much as expected.

The over-all crop production of the group was below that of the preceding year. Total crop output rose by 11 to 15 per cent in Czechoslovakia, the German Democratic Republic and Hungary (from a very depressed base in the former two countries) but declined, by an estimated 5 to 8 per cent, in Bulgaria, Poland, Romania and the USSR. The direction of change in the various countries reflects mainly the trend in grains. The grain harvest of the region, about 273 million tons, was 29 million tons below the previous year's record, though still substantially above the average for the first half of the decade (255 million tons). Only in Poland did the harvest fall short of that five-year average. After record crops in 1976, grain production declined in the Soviet Union (from 224 million tons to 196 million tons) and also in Bulgaria and Romania. In the northern-tier countries except for Poland, output increased in spite of the difficult climatic conditions, approaching previous peaks in Czechoslovakia and Hungary. Trends in other crops were similar, with substantial recovery gains in the northern countries other than Poland and generally lower

9/ Though all countries other than Poland and Romania have fallen slightly behind, a substantial lag relative to the goals of the medium-term plan has so far developed only in Bulgaria (about 4 percentage points in 1977, which will widen to 5 points at the planned 1978 growth rate). In the Soviet Union, a relatively slow initial pace was built into the time path of the five-year plan, with a significant acceleration in the last three years of the period (6 per cent in 1978, 7 per cent in 1979 and over 8 per cent in 1980). At the planned 1978 growth rate, output would fall about 2 points short of the original target for that year and growth at 8.4 per cent annually in the remaining two years would be required to attain the 1980 goal.

output levels than in the preceding year elsewhere. In spite of large gains in some countries (55 per cent in the German Democratic Republic), the output of potatoes declined by about 9 per cent in Eastern Europe, due mainly to sharply lowered yields in Poland. A 2 per cent reduction in this crop in the USSR may have been largely due to a continuation of the trend to reduced plantings. The output of sugarbeet rose by 16 per cent in Eastern Europe but declined (by about 7 per cent) in the Soviet Union from the record crop level of 1976, probably due to reduced yields. The area under this crop has been rising rapidly in all countries in recent years. In the Soviet Union, the production of oil-seeds increased by 11 per cent and a record cotton harvest was obtained.

Animal production, which in most countries had declined in 1976 and in some countries also in 1975, generally resumed growth in 1977. In most countries this resulted in substantially increased supplies of meat, milk, eggs and other products of the sector. In the Soviet Union, meat production rose by over 10 per cent and the combined total of meat, milk, eggs and wool by almost 8 per cent. After two years of contraction, the total output of the sector probably regained its 1974 level. A very large increase, but from a less depressed base, was also registered in Hungary (over 10 per cent for meat, milk and eggs and about 8 to 9 per cent for total sectoral output), while more modest - though generally also accelerated - growth was noted elsewhere. In some countries, however, the resumed production growth of the sector went in the first instance into the rebuilding of the production base, i.e., the livestock herds, whereas the output of market or export supplies continued to decline. This was the case in Poland and probably also in the German Democratic Republic, where the combined output of meat, milk and eggs dropped for the second year (by about 2 per cent in both countries) while livestock numbers increased. 10/

In spite of substantial efforts to protect the production and growth capacity of the livestock sector during the years of poor crops and strained fodder balances after 1974, including significantly increased imports of grain and other feed, a slight reduction of cattle herds and a more substantial culling of pig stocks could not be avoided in most countries in 1975 and 1976. Herd building resumed in 1977 in all countries except Bulgaria and Romania, where herd expansion had continued during 1975 and 1976; and the fodder situation appears to have become very tight in 1977 in spite of the bumper harvest of the preceding year. The number of cattle in the region rose to 145 million at the end of the year, 2.5 million above the level of one year earlier and more than 4 million above that at the end of 1974. Pig numbers increased by almost 10 per cent in 1977 as herds in Poland and the Soviet Union were being rebuilt at a rapid pace but they were still about 1 to 2 per cent below the end 1974 level. In view of the great significance attached to improved meat supplies, herd expansion is likely to continue in most countries in 1978. After the reduced 1977 grain harvest of the region such expansion will require increased feed-grain imports in a number of countries. In Poland, which

10/ In Poland, total output of the livestock sector increased by 13 per cent after a combined 9 per cent drop in the preceding two years; however, output growth excluding the increase in animal herds was only 1 per cent. Comparable data are not yet available for the German Democratic Republic but the underlying trends have been similar.

imported 6 million tons of grain in 1976, imports of more than 15 million tons are expected for 1977-1978. 11/ Imports of the Soviet Union, which had fallen sharply in 1977 from the 1976 level of 21 million tons, are also expected to rise again, 12/ while those of the German Democratic Republic are likely to remain near recent levels (4.8 million tons in 1976).

Agricultural growth targets in the national economic plans for 1978 are on the whole inversely correlated with the experience of 1977. Czechoslovakia and Hungary, where strong growth results were attained, hope for increases of 2 to 3 per cent, whereas Bulgaria, Romania, Poland and the USSR, where results were poor or much below plan, envisage growth in the 5 to 7 per cent range. Since targets for grain output are, in all countries for which these data are available (Czechoslovakia, Hungary, Poland, Romania, USSR), near or - especially in Romania - above previous records, some climatic luck will be required if the postulated growth is to be achieved. Substantial gains in meat production are expected in most countries. The Soviet Union, with an output goal of 15.6 million tons, plans to surpass the earlier peak of 15 million tons attained in 1975, while in Poland, where an increase of almost 9 per cent is planned, the recovery to the output level of 1975 will not yet be complete.

Other sectors

In most countries of the region, the construction industry and the transport sector appear to have worked under considerable strain in 1977. Output growth generally fell short of plan targets in both sectors, in some cases by substantial margins. Construction fulfilled the aggregate output growth targets of the national plan only in the German Democratic Republic and Hungary, with growth rates of about 6 per cent which were mainly the result of improved labour productivity (in Hungary, employment in the sector actually declined). Elsewhere construction volume increased by 3 to 5 per cent, except in Romania where it must have approached 10 per cent, in all cases less than planned. Labour supply to the industry must have been very tight under conditions of increased competition for diminishing labour force increments; employment in construction increased very little or declined in all countries for which data are available. Though labour productivity improvements - based on rapid growth of the sector's capital stock in recent years - were substantial in 1977, the even higher targets were generally not met. Building materials supplies may also have been strained in a number of countries especially in Poland, where the output of this industry has been lagging relative to the growth of construction volume for several years, and in the Soviet Union where the expansion of this industry has dropped off sharply in the last two years. Labour shortages also affected the transport

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11/ Trybuna Ludu (Warsaw), 11 January 1978. The figure, mentioned in a speech of Prime Minister Jaroszewicz, probably refers to two years rather than to the agricultural year 1977/78.

12/ Soviet data on 1977 grain imports are not yet available. Grain exports to the Soviet Union from the United States, which had supplied 12 million tons or 58 per cent of Soviet grain imports in 1976, declined by more than one third between the two years, according to United States Department of Commerce data.

sector, especially in Czechoslovakia, where much rolling-stock was locked up in repair yards for this reason - though capacity limits and organizational problems, especially those concerning the turn-around time of railroad cars, were probably of greater significance in holding down performance. Freight turnover (in ton-kilometres) increased less than planned and at reduced rates relative to the first half of the 1970s in the USSR and most of the Eastern European countries. In Czechoslovakia and Poland transport bottle-necks appear to have been severe enough to affect other sectors of production.

Manpower and employment

Though comprehensive and comparable data on manpower and employment changes in 1977 are not yet available, it appears that a very rapid tightening of labour supplies has set in even in those countries of Eastern Europe - Bulgaria, Poland and Romania - where the growth of the working-age population and the share of agriculture in the work force are still relatively high. In Poland, the expansion of wage employment dropped to less than 1 per cent in 1976 and 1977 from an average annual growth of 3.4 per cent in 1971-1975, amid signs of labour shortages in many sectors of the economy. Most of the increment must have gone to the service sectors of the economy, since employment in industry grew by only 0.3 per cent (as against almost 3 per cent annually in 1971-1975) and the construction labour force declined in both years. A shift towards the service sectors probably accompanied sharply falling wage employment growth in Bulgaria, too, where employment in the material sphere of production actually declined in 1977. Though wage employment growth in Romania still expanded at a high rate, it dropped from over 4 per cent in 1971-1975 to 2.8 per cent in 1977 and in industry it dropped even more sharply (from over 6 per cent to 2.5 per cent). To a less degree, wage employment growth also slowed down in the Soviet Union (from 2.5 per cent in 1971-1975 to about 2 per cent in 1976-1977) and it remains low or negative in the other Eastern European centrally planned economies. 13/ The rapid deceleration of manpower growth, coupled - especially in the Soviet Union - with a spatial imbalance between population location and manpower needs, poses difficult labour allocation problems in all of the socialist countries and throws a heavy weight on productivity improvement for future output gains.

Resource use and internal balance

In accordance with their medium-term development plans, national policies in most of the centrally planned economies aimed for the second year in 1977 at somewhat - in several instances sharply - slower growth of aggregate domestic resource use (NMP distributed) than was envisaged for aggregate output (NMP produced). Though this relationship was explicitly formulated only in the cases of Hungary, Poland and the USSR, 14/ a rough aggregation of plan targets for

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13/ Intercountry difference in total labour force trends are somewhat smaller since the wage employment data exclude the private (in Poland) and co-operative agricultural labour force. In some cases, year-to-year changes in this indicator are affected by organizational changes, such as the transformation of co-operative farms to state farms.

14/ In Hungary, net output (NMP produced) was to grow by 6 to 6.5 per cent while the net domestic uses (NMP distributed) were to increase by only 4 to 4.5 per cent. The corresponding plan figures for Poland were 5.7 and 2.3 per cent and for the USSR, 5.2 and 4.2 per cent.

investment expenditures and several consumption components indicates that similar policy intentions can be ascribed to all the remaining countries except perhaps Romania.

Considerations relating to both external and internal balance shaped these aggregate demand policies. The policies were most strongly reflected in the slackening of planned investment growth, though in some countries consumption growth was also to be held down. An improvement in the foreign balance appears to have been a high priority goal in all countries. Internally, reduced investment growth was to ease the pressure of aggregate domestic claims on available resources, to permit more balanced growth in order to lessen supply bottle-necks and generally to permit concentration on efficiency improvements in production and the investment process.

Although comprehensive data on aggregate resource uses in 1977 are not yet available, it appears that the basic policy intentions were implemented broadly in accordance with the plans; the planned proportions could not, however, be fully achieved in the face of generally below-plan growth of output and in some countries above-plan expansion of investment. Total internal uses seem to have grown less than, or in balance with, output; but the margin of slack in the domestic balance between available resources and their uses did not materialize to the extent expected. The policies were more successful in their external aspect and, except for Hungary, where investment outlays far outran the plan and spilled over into foreign markets, all countries improved their foreign trade balances.

Price levels continued to be under pressure from rising import costs as well as increased domestic production costs and structural imbalances between demand and supply. Several countries conducted revisions under the medium-term programmes in their producer price systems but price levels in consumer markets were generally insulated from the resulting cost movements by increasing price subsidies and other financial bridges. Only in Hungary and Poland was there a substantial updrift - in the 4 to 5 per cent range - in consumer price levels.

Aggregate demand constraint as a means of reducing domestic economic tautness and to obtain further improvements in the foreign trade balance also dominates the policy orientation of most centrally planned economies for 1978. With the exception of Romania, which still seeks to maximize output growth through very high investment rates, all the countries of the group intend to hold the expansion of aggregate uses below anticipated output growth, with especially sharp restraints in the case of Hungary and Poland where investment outlays are to be held at or below the 1977 levels.

Investment activity

Investment activity in the region expanded in 1977 at a rate probably just over 4 per cent, slightly less than in 1976 and substantially below the 8 to 9 per cent average annual growth of the early 1970s. National economic plans envisaged somewhat accelerated expansion of real gross investment in several of the Eastern European countries but reduced or zero growth in the German Democratic Republic, Poland and the USSR. In all countries but Romania, investment growth was scheduled at a much lower pace than during the preceding quinquennium (table III-5). With the exception of Hungary, the centrally planned economies achieved roughly the desired trends in 1977, though actual expenditures diverged to some degree from those planned.

The lowest growth rates - in the 2 to 3 per cent range - were registered in Poland and the Soviet Union. In Poland the modest increase of 2.5 per cent was none the less in excess of the plan, which had aimed at stabilization of investment at the preceding year's level. In Czechoslovakia and the German Democratic Republic, the approximately 6 per cent investment growth was within half a point of the plan targets. 15/ Only in Hungary and Romania, where there were real increases of 12 to 13 per cent, did growth of investment significantly outpace that of net output. In Romania the very ambitious (17 per cent) growth target was not attained, in part because emergency reconstruction efforts after the March 1977 earthquake aggravated bottle-necks in the construction sector; however, actual growth at 12 per cent was still much above that of 1976. In Hungary, by contrast, investment activity ran out of control in the first half of the year and, instead of the planned 4 to 5 per cent rise, total outlays rose by 13 per cent in real terms (19 per cent nominally). 16/

Judging from the 1977 trends in gross investment expenditures and national income, the investment rate (net investment as a share of NMP), which had dropped in most countries in 1976 after a rapid rise in the first half of the decade, continued to decline in Bulgaria and Poland - very significantly so in the latter country - and rose in Hungary and Romania, while changing very little in the remaining countries. 17/ Except for Romania, all socialist countries expect this ratio to stabilize or drop over the remainder of the five-year plan.

Plan targets for 1978 imply some further deceleration of investment activity, with the planned expansion rate for the region as a whole estimated at somewhat less than 4 per cent. In Hungary and Poland, outlays are to be held at or below the 1977 levels and in the German Democratic Republic growth is to drop sharply from 6 to 2 per cent. 18/ In the Soviet Union, investment activity is to increase

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15/ In Czechoslovakia, investment growth of 6.3 per cent surpassed the original plan target (5.8 per cent); but it appears that the target was raised in the course of the year and the final result was reported to have been 0.5 per cent short of the plan, owing to shortfalls in the construction sector.

16/ Factors behind the investment boom in Hungary were an unanticipated build-up of enterprise liquidity after the last producer price changes and a very rapid disbursal of state credits from a special fund set up in 1976 to promote the expansion of export production capacities.

17/ Net accumulation ratios (the share of net investment in fixed assets plus inventory change in NMP) in 1976 ranged from 23 per cent in the German Democratic Republic, 26 to 30 per cent in Bulgaria, Czechoslovakia, Hungary and the USSR, to over 35 per cent in Poland and probably also in Romania. In Poland, the net investment share, estimated at 30 per cent in 1976, is to be cut to 24 per cent in 1978 (Nowe drogi (Warsaw), No. 1 (1978), p. 97).

18/ In Hungary, where owned and borrowed enterprise funds accounted for 56 per cent of investment expenditures in the socialist sector in 1977, the investment constraint is enforced by means of a freeze on all bank credits for new enterprise investment projects through mid-year and a sharp reduction in budgetary investment financing as well as operating subsidies, the latter in part to reduce enterprise liquidity.

at a slightly higher rate than in 1977 but still at only 3.4 per cent. Somewhat higher rates are planned in the remaining countries, with a significant acceleration only in Romania, where investment targets were not met in the past two years and an effort is being made to catch up with the medium-term plan.

In all countries the retrenchment in investment growth as a strategy for the second half of the 1970s is linked with efforts to raise the efficiency of investment expenditures. This is to be done, first, by accelerating the completion and commissioning of projects in progress and constraining new investment starts, in order to cut back the large overhang of unfinished projects and, secondly, by increasing the share in the total outlay of reconstruction and modernization investments in existing facilities as an approach to shortening the over-all gestation period of capital expenditures.

Inevitably a major portion of investment resources continues to be devoted to very large-scale undertakings with long gestation periods, especially in transport and other infrastructural sectors and in the fuel, energy and mineral raw material complexes, but also in manufacturing. 19/ Emerging bottle-necks and tight energy balances have induced several countries to re-allocate investment resources and to raise the share of the fuel and energy, other raw materials and transport sectors above the proportions envisaged in the original five-year plans, especially in Poland in 1977 and in Czechoslovakia and the USSR in the 1978 plans. In the German Democratic Republic, these sectors absorbed 58 per cent of total industrial investment in 1977.

In some contrast to the successful curtailment of the growth of over-all investment expenditure, performance in 1976-1977 regarding the completion of new projects within prescribed time frames and corresponding to planned quality parameters has been rather mixed. While in all countries significant additional capacity was put into production, 20/ delays in completing structures and commissioning new plant, largely caused by bottle-necks in the construction sector and, in some countries, also in the transportation sector, were reported throughout the region. The German Democratic Republic and Poland appear to have succeeded in reducing the backlog of unfinished projects. 21/

19/ In the USSR, this includes such major projects as the construction of the Baikal-Amur railroad trunkline, a 10-year and R10 to R20 billion undertaking which by the mid 1980s will open access to the rich mineral resources of eastern Siberia; the Orenburg natural gas complex with a pipeline to the western border of the USSR, a joint CMEA undertaking in the R5 billion to R10 billion range begun in 1975, which will start operations in 1978 with deliveries to participating CMEA partners as well as markets in Western Europe and the giant Kama Truck Plant.

20/ In Bulgaria, productive assets worth 5.5 billion leva were commissioned in 1977, an increase of 22 per cent over the preceding year, and in fact an increment nearly equal to total investment expenditures in 1977. In Poland, the value of completed construction projects was 14 per cent larger than in 1976, whereas investment outlays increased by only 2.5 per cent.

21/ Nevertheless, the stock of unfinished projects in Poland continues to be high. Investment funds required for completing ongoing projects amounted to 670 billion zlotys at the end of 1975, but about 1,000 billion at the end of 1976 (Wiadomości statystyczne (Warsaw), No. 12 (1976), p. 4 and Nowe drogi (Warsaw), No. 1 (1978), p. 94).

However, targets for completing ongoing projects were not attained in Czechoslovakia, 22/ Romania and the Soviet Union, while in Hungary the stock of unfinished investments increased substantially. Though the share of modernization-type investments increased in several countries (especially Bulgaria), performance would seem to have fallen short of policy intentions. 23/

Revisions of investment programmes, in some cases amounting to a reordering of the priorities established in the five-year plans, were particularly pronounced in Czechoslovakia, Poland and Romania. In Czechoslovakia, expenditures will be concentrated on the completion of ongoing projects and the modernization of existing capacities, though outlays will be increased and some new projects started in the fuel and energy sphere to improve the strained supply situation. Perhaps the most radical reassessment of the investment strategy was implemented in Poland, where the "regrouping of resources" under the auspices of the "economic manoeuvre" included the scrapping or postponement of some investment projects originally scheduled for the period, a systematic concentration of outlays on modernization projects yielding increased output of consumer and export products and the reallocation of construction resources from industrial purposes to housing. In Romania, a rationalization drive yielded a reduction in the scheduled costs of the five-year programme of about 11 per cent: the resources released in this manner were reallocated to the speeding up of the completion of current projects and the starting up of some additional ones, to a supplementary investment programme for less developed regions of the country and to a roughly 20 per cent increase in the housing construction programme for the quinquennium.

Incomes, wages and levels of living

Increases in material production were accompanied by relatively high growth in personal incomes (table III-6). In nominal terms, total disposable income increased in 1977 at rates ranging from almost 5 per cent in Czechoslovakia to over 12 per cent in Poland, generally moving above target levels. In some countries - especially in Hungary and Poland - part of this monetary gain was eroded by increases in consumer prices; however, in all countries real disposable income increased substantially.

Per capita real personal income increased at rates ranging from 3 to 7 per cent. Owing to appreciable increases in the social component of consumption, *per capita* real income in most countries tended to expand faster than average

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22/ In Czechoslovakia, for instance, the five-year plan called for a curtailment of ongoing projects by 15 to 18 per cent but performance in 1977 was even less satisfactory than in the preceding year.

23/ In Poland, for example, the share of modernization-type investments in industry was 24 per cent in 1976 and 26 per cent in 1975, both below plan expectations (*Nowe drogi* (Warsaw), No. 1 (1978), p. 98). In Bulgaria, outlays on reconstruction and modernization, including the expansion of existing capacities, constituted 68 per cent of total investment in the material sphere (*Rabotnichesko delo* (Sofia), 9 February 1978).

real wages or labour-related incomes; however, there were several exceptions occasioned by wage reforms (as in Romania), 24/ good harvests (as in Hungary) or revisions in procurement prices (as in Poland and the Soviet Union). 25/ Nevertheless, in most countries the aggregate of transfer payments and free social benefits increased substantially. 26/ Whereas in the German Democratic Republic, Hungary and Poland direct transfers increased faster than the remaining elements of social benefits, 27/ elsewhere the directly allocated benefits would appear to have grown faster. 28/

Average wage increases in 1977 were well ahead of targets and of the levels attained in 1976 in most countries for which data are available. Nominal wage gains ranged from a low 2 per cent in Bulgaria to about 7.5 per cent in Hungary. In the Soviet Union, however, average wage gains (2.7 per cent) fell short of the growth attained in the preceding year, though the plan (for 2 per cent gains) was surpassed. In some countries, a part of the over-all wage increase resulted from adjustments in the minimum wage level (as in Poland, Romania and the Soviet Union). In the Soviet Union, a general increase of wage scales for personnel in the service sectors continued to be implemented by stages, starting with the regions of the far north, the far east and Siberia. The average wage increase in the German Democratic Republic resulted largely from a wider use of the new reward system, whereby wage incentives are directly linked to productivity, and to some extent perhaps also from increased overtime work after the introduction of a

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24/ The Romanian wage reform calls for an increase in nominal wage rates of 40 per cent by 1980. The first stage of this reform, with wage increases of 15 to 19 per cent, was begun in mid-1977, to be completed by late 1978.

25/ Thus in the Soviet Union average wages in the socialized sector increase by 2.6 per cent but labour-related incomes of the co-operative peasantry went up by 4.3 per cent, mostly on account of price changes. The same phenomenon was observed in Poland. In Hungary, the wage bill increased by 8.2 per cent but labour-related incomes of the co-operative peasantry by 8.3 per cent and incomes from agricultural sales on own account by 24.6 per cent, mostly because of very good output performance (Statisztikai havi közlemények (Budapest), No. 1 (1978), p. 60).

26/ Social consumption grew by 7.8 per cent in the German Democratic Republic, 4.9 per cent in Czechoslovakia and 2.9 per cent in the USSR.

27/ In the German Democratic Republic and Poland, pensions rose by 12.5 and 22.8 per cent, respectively. Transfer payments in Hungary increased by 9.8 per cent while wages went up by 8.2 per cent (Statisztikai havi közlemények (Budapest), 1978, No.1, p. 60).

28/ For example, private consumption in Czechoslovakia increased by 2.4 per cent (instead of 3.7 per cent as planned) but public consumption rose by 4.9 per cent. Retirement and social security benefits went up by a modest 2.7 per cent.

shortened work-week for shiftworkers and working women. 29/ In Hungary, shift supplements were raised to strengthen incentives for the multishift utilization of existing fixed assets.

The plans for 1978 almost uniformly envisage reduced rates of growth for nominal and real incomes in comparison to 1977. The planned cutback in nominal income growth is most pronounced in Poland (from 12 to below 7 per cent for total money incomes and from 7 to below 3 per cent for the average net wage) but it should be noted that in recent years similar limits on money income growth have been consistently exceeded by wide margins. In spite of the deceleration, real per capita incomes are expected to grow by 3 to 4 per cent in all countries. Substantially higher - and accelerated - gains of almost 8 per cent in real incomes and average wages are envisaged in Romania, where the first stage of the wage reform is to be completed in the course of the year and a significant increase in agricultural output is expected.

Consumer supplies

The volume of retail sales of goods and services, measured at constant prices, increased at rates ranging from 3 to 4 per cent in the majority of countries to 6 to 7 per cent in Hungary, Poland and Romania (table III-6). Growth rates were on the whole similar to those observed in the preceding year, except for a very marked slowdown in Bulgaria which mirrors the over-all production performance and especially the agricultural performance in that economy. In most countries, however, the increase fell short of the planned expansion rate and in a number of cases the rate of increase of retail trade value in nominal terms remained below the gains in disposable money incomes, which in conjunction with the generally high income elasticity of consumption must have caused some market strain. Major efforts were made in all countries to increase the supply of services. 30/

29/ Major revisions in the labour code introduced in the German Democratic Republic in the first half of 1977 provided for: (a) a reduction of the work-week from 42 to 40 hours without loss of income, for workers participating in three-shift production and for fully employed mothers with two children under age 16; (b) three additional paid vacation days for workers on a three-shift system; (c) a reduction of the work-week from 45 to 42 hours for two-shift workers; (d) a "household day" per month for fully employed single women over 40. In 1976 maternity leave had been extended from 18 to 26 weeks for the birth of the first child and to one year for that of second and later children. All these measures effectively reduced potential work-hours available for production. Though rationalization measures offset part of this loss, overtime was apparently widely used to bridge temporary gaps.

30/ In the German Democratic Republic, a large number of artisans were licensed to improve repair and maintenance services, where employment in recent years had tended to shrink. Measures to expand the private service sector were also taken in Poland. In Bulgaria, the German Democratic Republic and the USSR, the 1977 increase in services surpassed that in the sale of goods and in Poland the increase in value - about 10 per cent - was substantial. The sector none the less remained everywhere in need of substantial capacity expansion.

Over-all judgement on the evolution of the consumer market balance is difficult on the basis of the data at hand but it is clear that the situation varied subs'antially from country to country. Juding from the constellation of income and sales trends and data on key consumer products - especially meats and other food products, which have been in tight supply in a number of countries in recent years - it would seem likely that there was a substantial improvement in Hungary and to a less degree in the Soviet Union, while in the two Balkan countries - especially in Bulgaria - the situation would seem to have deteriorated. In Poland, the over-all disequilibrium arising from the very fast expansion of consumer purchasing power in recent years, the freezing of prices for basic food products at mid-1960s levels and stagnant or declining agricultural output does not seem to have improved very much in 1977, the first year of the "economic manoeuvre", though in accordance with its precepts supplies of manufactured products to the domestic market increased at high rates and faster than did producer goods. Market strains continued to be pronounced especially with regard to livestock products. In the remaining countries, the over-all situation appears to have remained relatively unchanged. Imbalances continued to persist in most countries, however, in the structure of supply and demand, especially in the case of high-quality consumer durables, fashion and high technology products. The reduction of consumer goods imports from developed market economies in 1977 probably caused some tightening in this regard in a number of countries. 31/

Plans for 1978 generally envisage an expansion of retail supplies or sales in step with the growth of disposable money incomes and at rates very similar to or somewhat lower than, those attained in 1977. Only in Romania is a sharp acceleration of growth expected. In Poland, however, the plan envisages a sharp improvement in the over-all market balance as a result of the reordering of production and investment priorities towards consumer market supplies through the policies of the "economic manoeuvre". This finds expression in an expected growth of retail sales of 12 per cent, about twice the anticipated expansion of consumer money incomes.

Levels of living in all countries were appreciably enhanced by new housing construction, which has become a priority item of social policy, especially in the German Democratic Republic, Poland and Romania, in spite of the tight situation in the construction sector in a number of countries. Though 1977 plan targets

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31/ In this context the so-called "internal export" shops, which sell imported consumer goods and selected exportables of domestic manufacture against convertible currency payment only, have come to play an increasing role as a supply source for scarce commodities in many of the Eastern European economies. The network of these shops has expanded greatly in recent years as a result of the legalization of foreign currency holdings by private citizens, the rising volume of East-West tourist traffic and growing transfer receipts from abroad in a number of countries. To increase the supply of imported goods also to those not having access to foreign currency, measures have been taken in the German Democratic Republic to expand retail outlets providing these products against local currency at special prices (Neues Deutschland (Berlin), 27 September and 25 November 1977). Similar steps are being considered in Bulgaria. In Poland, certain sensitive product lines (pharmaceuticals, food products) have been withdrawn from the foreign currency outlets or transferred to general stores for similar reasons (Z. Krzyzkiewicz, "Pojecie eksportu wewnetrznego," Bank i kredit (Warsaw), 1977, No. 10).

could not be attained everywhere, 32/ in Czechoslovakia, the German Democratic Republic and Hungary residential construction was well ahead of the plans (and in the first two countries considerably above 1976 levels) even though some levelling off of housing construction had been envisaged in all three cases. In relation to population, the intensity of housing construction varied very little between countries, with a range of 800 to 900 housing units per 100,000 inhabitants. 33/ Plans for 1978 envisage activity at 1977 levels in the Soviet Union, some easing of growth in Czechoslovakia, the German Democratic Republic and Hungary and substantial acceleration in Bulgaria, Poland and Romania. 34/

Prices and price policies

Most price movements in the centrally planned economies in 1977 resulted from the implementation of the price policies contained in the current medium-term plans, though some revisions were also introduced ad hoc to reflect significant price fluctuations in international markets (especially those for coffee and cocoa) and in response to domestic market imbalances.

Increases in the consumer price level remained within the range of recent experience and, in most countries, within the plan targets set for the year. The largest increases, as in previous years, were observed in Hungary (about 4 per cent) and in Poland (about 5 per cent). 35/ Elsewhere the changes were small,

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32/ Shortfalls were significant in Romania, where earthquake repairs diverted a large portion of construction capacity, but plans were also not attained in Bulgaria (partly for the same reason), Poland and the USSR.

33/ The German Democratic Republic (with negative over-all and insignificant urban population growth) and Romania (where, apart from the factor noted above, bottle-necks in construction capacity have prevented the attainment of plan targets in recent years) are outside of this range, with increments of 630 to 660 dwelling units per 100,000 inhabitants.

34/ In Romania, the target for the five-year plan period was raised from 815,000 apartments to 1,005,000 apartments in the course of the plan revision prepared in 1977 (Scînteia (Bucharest), 25 December 1977); the 1978 target of 219,000 apartments (almost 1,000 per 100,000 inhabitants) implies an increase of more than 50 per cent over 1977, a very ambitious undertaking which is likely to be difficult to achieve. In Poland, the "economic manoeuvre" involves the diversion of some construction capacity from industrial construction to housing in order to achieve a 10 per cent increase in new construction (as against less than 3 per cent in 1977).

35/ The cost-of-living index in Hungary increased by 3.9 per cent and in Poland by 4.7 per cent. Since service costs, especially rents, probably did not increase as much as commodity prices, the retail price index in both cases probably increased at a slightly higher rate.

probably amounting to less than 1 per cent in most countries. 36/

Price subsidies continued to absorb an increasing share of government budgets in a number of countries, in spite of measures designed to bring prices closer into line with real costs. 37/ This situation is not expected to change drastically in 1978, 38/ though further changes in retail prices have already been announced in some countries (as in the Soviet Union) or are planned to take effect (as in Hungary) in 1978. 39/

Producer price changes were more widespread as the countries continued to adapt wholesale prices to cost changes in domestic and foreign markets. However, different measures were embraced by the different countries of the group. In the majority of centrally planned economies price revisions are a discrete operation resorted to at infrequent intervals only (at least five years). Only in Hungary and Poland are producer prices adapted more regularly in response to changes in real costs, especially shifts in import costs.

In Czechoslovakia and the German Democratic Republic the price revisions contained in the current medium-term plans, and in Romania in the plan for 1977,

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36/ A somewhat larger increase - possibly approaching 2 per cent - may have occurred in Bulgaria, where the prices for some basic food products were slightly and those for petroleum products significantly raised (by 40 to 50 per cent); however, no aggregate data are as yet available. In Romania, an increase of 1.6 to 2.3 per cent was envisaged by the 1977 plan but the actual increase was only 0.5 per cent, since several of the intended price adjustments were postponed to 1978. Increases in passenger fares and some services have already been announced for that year, together with the assurance that basic food prices and rents will be held unchanged through 1980.

37/ In the German Democratic Republic, for instance, total consumer price subsidies in 1977 increased less (3.1 per cent) than retail trade turnover, presumably because the sharp increase in retail subsidies introduced in the preceding year (17 per cent) provided a cushion for 1977 policies. While the absolute level of subsidies for food-stuff did not increase and therefore these subsidies' share in retail value declined (from 20.4 per cent in 1976 to 19.1 per cent in 1977), total subsidies for consumer durables and public services continued to rise (by 12 and 36 per cent, respectively).

38/ In Poland, for example, budgetary price subsidies increased in 1977 by 17.6 per cent and are expected to increase in 1978 by 34.5 per cent, amounting to roughly one fourth of total budgetary outlays.

39/ According to preliminary reports, Hungary succeeded in 1977 in reducing the share of subsidies in actual production costs from 18.7 per cent to about 15 per cent - the first reduction since 1970 (Magyarország (Budapest), 27 November 1977, p. 25). The new 1978 prices are expected to reduce the share of subsidies still further.

were newly introduced or expanded to new products. Thus in the German Democratic Republic the current price revision is phased over the entire plan period, starting from basic materials prices in 1976 and finishing towards the end of the decade with new producer prices for end-products. In Czechoslovakia, new wholesale prices for about 2 million products became effective in 1977. The net effect of the revision was estimated to amount to a decline of about 1.3 per cent in the wholesale price index relative to 1971 - the base year of the restructuring - with prices for products of the primary industries increasing and prices for products of the manufacturing sector, especially engineering, decreasing. 40/

Changes in industrial wholesale prices in Hungary were generally smaller than in previous years and stayed in tune with production cost changes - 2 per cent for socialist industry as a whole. Above-average changes occurred for mining (6.3 per cent) and the machinery sector in general (3 per cent). Agricultural procurement prices stayed on the whole unchanged; the slight increase in livestock product prices (1 per cent) was offset by the decline (-2.1 per cent) of crop-product prices. 41/

Foreign trade and external balance

The pattern of trends in the foreign trade of the centrally planned economies in 1977 repeated that of the preceding year, with substantially faster growth of exports than of imports, though in an accentuated manner. It was shaped by the national policies of easing domestic demand growth as well as by specific measures in several countries directed at improving the balance of payments, though non-policy developments - such as reduced import requirements after the good 1976 harvest - also affected the outcome. The new policy priorities and the resulting trade trends of the past two years produced a significant improvement in the trade balance with the market economies and an increase in regional interdependence among countries that are members of the Council for Mutual Economic Assistance (CMEA).

The value of exports of the Eastern European socialist countries and the USSR increased in 1977 at a somewhat higher rate than world trade - by almost 17 per cent if measured in current dollars or 15 per cent if measured in transferable roubles (TR) - while imports of the group expanded at over 9 per cent in dollars or almost 8 per cent in transferable roubles. 42/ In comparison with the preceding year, export growth accelerated whereas growth of imports declined. The same pattern prevailed in the foreign trade of the Eastern European countries and that of the Soviet Union but it was much more pronounced in the case of the latter country, with export growth of 19 per cent and an import increase of only 5 per cent (table III-7).

In volume terms, exports of the group may have increased by some 9 per cent and imports by about 3 per cent - i.e., at a slower rate than aggregate net output.

40/ Zemědělský noviny (Prague), 28 October 1976.

41/ Statisztikai havi közlemények (Budapest), 1978, No. 1, pp. 61-63.

42/ Growth of trade value in terms of transferable roubles is lower than that measured in current dollars owing to downward adjustments of the quoted basic exchange rate for the dollar in Bulgaria, Czechoslovakia, Hungary and the USSR. Because of the large share of intra-group (TR-denominated) trade in the external commerce of these countries, nominal growth rates presented in the text and the tables below were computed in terms of TR values.

Directions and composition of trade

In contrast to the preceding year, trade among the socialist countries, of Eastern Europe and the USSR expanded, both in value and in volume, substantially faster in 1977 than did their exports to the market economies, while imports from the market economies showed an absolute decline for the first time since the 1950s.

In intra-group trade, the most dynamic element in 1977 were the exchange between the Soviet Union and the other countries of the group. Soviet deliveries to Eastern Europe increased more than 16 per cent in value terms and Soviet imports from Eastern Europe by about 13 per cent. In real terms, the volume of these flows may have increased by 9 to 10 per cent, a substantial acceleration over the preceding year when the volume of Soviet trade with other CMEA member countries grew only a little more than 2 per cent. Trade among the Eastern European countries expanded at a much lower pace in 1977 - by an estimated 9 to 11 per cent in value terms and perhaps 4 to 6 per cent in volume.

Prices in trade among CMEA member countries continued to increase in 1977 as the world market price changes of the early 1970s continued to be absorbed into the regional price structure under the revised application of the "Bucharest formula" for price formation; however, the rate of change appears to have been rather less than in the preceding year and probably also below the 1977 price increases in the socialist countries' trade with market economies. 43/ A substantial increase - reportedly over 20 per cent - was registered in the price of oil, which constitutes a major item in the imports of the Eastern European socialist countries (except Romania) from the USSR, 44/ while other raw material

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43/ Under the revised "Bucharest formula" procedure, first applied in 1975, intra-group foreign trade prices are annually renegotiated on the basis of a moving five-year average of world market prices. Data on 1977 price movements are at this point available only for Hungary where, in trade with the rouble area, export prices rose by 3 per cent (as against 10 per cent in 1976) and import prices by 6 per cent (12 per cent in 1976). The largest shifts occurred in the fuel and energy group with increases of 18 to 22 per cent, after a much more modest increase (7 to 8 per cent) in 1976. Prices of manufactures (capital and consumer goods), which in 1976 had risen by 14 to 19 per cent and which constitute the bulk of the intra-group trade, showed only modest changes (2 to 5 per cent) in 1977. In view of the common price determination formula, price trends in the other CMEA countries are likely to have been similar. In Hungarian trade with the dollar area, export prices rose by 4 per cent and import prices by 8 per cent in comparison with 1976. (The import price index was strongly affected by the relatively high share of coffee in Hungarian imports from the dollar area - about 5 per cent in the first half of 1977).

44/ In spite of this increase, the price of oil on the intra-CMEA market is still substantially below world market levels. On present trends, full adjustment to the new external price structure will be reached only in 1979, when the pricing base will be the world market average of 1974-1978. In 1976, petroleum and petroleum products accounted for 21 per cent of Soviet exports to the five Eastern European countries, with a unit value of 37 roubles per ton as against 69 in Soviet exports to market economies. The price of crude petroleum in Soviet exports to Hungary rose from 40 roubles per ton in 1976 to 49 in 1977 (Economist (London), 5 February 1977) and is scheduled to increase to 60 roubles per ton in 1978 (Világgazdaság (Budapest), 27 January 1978).

prices increased at lower, but also above-average, rates. The terms of trade in the region thus deteriorated for most of the Eastern European countries, as net importers of fuels and raw materials, and improved for the Soviet Union.

Exports to the market economies increased by an estimated 15 per cent in value - about 9 per cent in the case of the Eastern European countries and over 22 per cent in the case of the USSR. Imports from outside markets declined by 2 per cent as Eastern European imports stagnated and those of the Soviet Union dropped by 5 per cent. In quantum terms, exports may have increased and imports declined by about 7 to 8 per cent.

These contrary trends reflect mainly the changes in trade with the developed market economies. Policy efforts in the socialist countries were directed at stimulating the production of exportables and, specifically, at expanding exports in this direction. In spite of slackening demand in the Western countries and the spread of protectionist trade restrictions, all countries but Bulgaria, Romania and possibly the German Democratic Republic managed to increase their exports to developed market economies at substantial rates, with an over-all growth in value of 10 to 11 per cent, approximately equal to the import expansion of the developed market economies. 45/ However, for the group as a whole the growth of exports in 1977 was below the high expansion rate attained in the preceding year and in most countries the results appear to have fallen short of the plan targets. Imports from the developed market economies, on the other hand, declined in value by 4 to 5 per cent, dropping steeply in a number of countries (Bulgaria, Poland, USSR and probably also the German Democratic Republic) or growing at much reduced rates (Czechoslovakia). There was substantial and accelerated growth only in Hungary and Romania, the two countries of the group where investment outlays had increased at very high rates in 1977. In the case of the Soviet Union, the main factor in the absolute decline was the reduced demand for grain imports after the bumper harvest of 1976, though the over-all slowdown in output and particularly in investment growth also weakened the demand for imports from the Western industrial economies. 46/ In the Eastern European countries, balance-of-payments considerations appear to have played the main role in shaping 1977 import trends; import value fell off sharply in those countries in which imports from the developed market economies had exceeded exports by the largest margins in the preceding years (table III-8). In addition to reduced growth in aggregate demand and especially in capital formation, adjustment measures in some countries included administrative procedures operating directly on imports. In Poland, for instance, import allocations have been tied to current export performance for industrial production branches since early 1976.

In trade with the developing countries, value - and, at least in exports, almost certainly also volume - increased at a substantially accelerated pace in 1977. The value of exports of the socialist countries of Eastern Europe and

45/ In the absence of national data for Bulgaria, the German Democratic Republic, Poland and Romania, trends in trade with developed market economies for these countries have been estimated from partner data.

46/ The decline in Soviet imports from developed market economies was more than fully accounted for by the 35 per cent drop in imports from Canada and the United States of America, flows which in 1976 consisted of two thirds of grain and grain products. Imports from all other developed market economies continued to grow in 1977, but very slowly - by less than 1 per cent.

the USSR may have grown by about 30 per cent, treble the rate of the preceding two years, due mainly to the 37 per cent increase in Soviet exports. 47/ The value of imports rose by some 12 to 16 per cent in 1977, as against a 4 per cent increase in value and probably no growth in real terms in 1976. 48/ Disbursements of development aid credits under economic and technical co-operation agreements and counter-deliveries in repayment of earlier credits account for a significant part of both exports and imports. In the case of the Soviet Union, deliveries of machinery and equipment to aided projects in 1976 amounted to $627 million. These deliveries constituted more than one half of the machinery exports to developing countries other than Cuba and about 13 per cent of total exports to this group of countries. Such deliveries increased by 15 to 20 per cent to $720 to $750 million in 1977. Counter-deliveries of commodities produced by Soviet-aided projects, probably to a large extent in repayment of earlier credits, came to $680 million in 1977, or some 16 per cent of total imports from these countries. 49/ The network of economic and technical co-operation agreements under which these trade flows are generated continued to spread in 1977. Thus the Soviet Union concluded new agreements with three western hemisphere countries (Costa Rica, Guyana and Jamaica) and now has such links with 63 developing economies.

Balance of trade and external debt position

The foreign trade policies and the resulting export and import trends of the year brought a very substantial improvement to the merchandise trade balance of the centrally planned economies with the market economy countries. In trade among

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47/ As noted in earlier issues of the World Economic Survey, Soviet exports to developing countries (in contrast to imports) are not fully specified by partner country. As in earlier years, the 1977 export increase was concentrated in the unspecified residual, which increased by 64 per cent, while the portion of exports allocated by partner country (some 60 countries, including Cuba) grew by 23 per cent. The unspecified residual now accounts for 54 per cent of Soviet exports to developing countries other than Cuba.

48/ The estimates of 1977 growth in the trade of Eastern Europe with developing countries (table III-7) have an error margin of several percentage points since data for a number of countries had to be derived residually. Particularly important is the lack of direct information on Romanian trade with this group, which has been growing very rapidly in recent years and in 1976 accounted for 28 per cent of the Eastern European countries' transactions with the developing countries. However, trends from the socialist countries jointly are none the less clearly established since they are dominated by the changes in the trade of the USSR with developing countries (59 per cent of the joint total in 1976).

49/ These figures for aid delivery refer only to disbursements in the form of machinery and equipment exports to projects constructed with Soviet assistance in developing countries excluding Cuba. (Deliveries to Cuba in the same category came to $150 million in 1976 but 1977 data are not yet available.) Resource transfers in other commodity classes are thus not covered, nor are disbursements on convertible currency cash credits granted to some countries (Libyan Arab Jamahiriya, Nigeria). Figures for 1976 from Vneshniaia torgovlia SSSR za 1976g; 1977 data from information given by I. Karpanov in Ekonomicheskaia gazeta (Moscow), No. 12 (March 1978), p. 22.

socialist countries, the position of the Eastern European countries deteriorated whereas that of the Soviet Union improved. The aggregate external deficit of the seven countries (including intra-group trade) declined from $7.1 billion in 1976 to $1.5 billion in 1977 and the combined deficit with market economies declined from $8.7 billion to $2.6 billion. The deficit of the seven countries with the developed market economies was cut by almost $4 billion, while the surplus in trade with developing countries increased by $2 billion or more. The trends were broadly similar in all the countries. Except for Hungary, all the countries of the group narrowed their deficits with the market economies. The Soviet Union closed its trade accounts with a large export surplus after two deficit years and some of the Eastern European countries attained external balance (Romania - for the second year - and probably Bulgaria) or achieved a significantly reduced deficit (Poland). In others, however, the over-all deficits increased (Czechoslovakia, Hungary and probably the German Democratic Republic). For the Eastern European countries jointly, the improvement in the over-all external position was rather small since the trebling of the deficit within the rouble area - mainly in trade with the Soviet Union - offset a large part of the gain in the balance with market economies. 50/

Very little information is available at this time on formal arrangements for the financing of the increased imbalances in the intra-regional trade of the socialist countries. Relative to total trade flows, they remain small in spite of the large absolute increase. 51/ Their origin is to be sought largely in the deterioration of the terms of trade of the raw-material importing countries of the

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50/ Eastern Europe and USSR: trade balance, 1970-1977

(Billions of dollars)

	Eastern Europe				USSR			
	1970-1976	1975	1976	1977	1970-1976	1975	1976	1977
Total	-18.1	-5.8	-6.2	-5.8	-0.0	-3.7	-0.9	4.3
Centrally planned economies	1.9	-0.4	-0.4	-1.6	3.6	1.3	2.0	2.7
Developed market economies	-22.6	-6.3	-6.3	-5.0	-11.3	-4.9	-3.9	-1.3
Developing economies	2.6	0.9	0.6	0.8	7.7	0.0	1.0	2.9

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

51/ Net imbalances in rouble-area trade amounted to 5 per cent of exports for the six Eastern European countries jointly, varying between 2 and 12 per cent for the individual countries. The joint imbalance with the USSR increased from 7 per cent of exports in 1976 to 12 per cent in 1977.

group caused by the price adjustments which were noted above; however, some switching of deficits from outside markets to the intra-CMEA market may also have occurred as a consequence of policies that emphasized economies on convertible currency import expenditures and encouraged greater concentration on intraregional integration and sources of supply. It is likely that intergovernmental credits arranged between the USSR and several of its trade partners to ease the adjustment of the intragroup market to the world-market price structure supported most of the 1977 trade gaps; but the International Bank for Economic Co-operation (IBEC), the clearing bank of the CMEA countries, may also have been called upon for a greater volume of medium-term financing.

In the relationship with the developed market economies, in which socialist imports exceeded exports by about one fifth in 1977 (as against two fifths in 1976), the current-account payments gap to be financed is likely to have been substantially larger than the trade gap, owing to the deficit on invisible transactions including debt service. Interest payments, which may be estimated at $3 billion to $4 billion, have been rising rapidly in recent years in line with the increase in the external debt, thus offsetting a part of the gain on the trade balance. 52/ Apart from gold sales, which are reported to have continued in 1977 at about the 1976 rate of $1.5 billion, the main sources of financing were government-guaranteed export credits from supplier countries, direct supplier credits, bond issues and Euro-market loans. Data are available on the last category only; these show that the socialist countries continued to borrow in Western capital markets at a somewhat higher rate than in 1976, reportedly meeting somewhat easier conditions than in the preceding year. 53/ However, the rate of increase of total indebtedness has probably slowed down. Net liabilities of the centrally planned economies to Western commercial banks reporting to the Bank of International Settlements at Basle, which constitute a partial indicator of trends in the total foreign debt, rose from $21.4 billion at the end of 1976 to $25.1 billion at the end of 1977, an increase of $3.7 billion as against a rise of $6.1 billion in 1976. 54/ The over-all net indebtedness of the seven countries, which Western banking sector experts estimate at about $35 billion at the end of 1976, may have risen by some $6 billion to $7 billion in 1977 to reach about $41 billion to $42 billion at the end of the year. 55/

52/ Balance-of-payments reports are available only for Hungary, which recently published data on its convertible currency balance for 1975 to 1977; hence the over-all payments gap and its financing can be estimated in its rough outlines only.

53/ Placements of bonds and new syndicated ("publicized") medium- and long-term Euro-currency loans by the seven countries and the International Investment Bank (IIB) of the CMEA came to $2.4 billion in 1976 and $2.9 billion in 1977, of which the IIB took up $0.6 billion and $1.1 billion, respectively. World Bank, Borrowing in International Capital Markets (Washington, D.C.), December 1977, table 2.2 (for the first three quarters of 1977) and Euromoney (London), 1978, No. 1 (for the last quarter).

54/ See foot-note b in table III-9 for the definition and limitations of these data, which exclude the claims of Austrian banks and those of banks in the Federal Republic of Germany on the German Democratic Republic.

55/ See table III-9. The figure excludes borrowings of the CMEA banks, estimated at $4 billion. It is net of Euro-currency reserves held in Western banks but gross of long-term credits granted by socialist countries to Western buyers of capital goods exported by them.

Plans and prospects

The foreign trade intentions of the centrally planned economies for 1978, as broadly outlined in the national economic plans and the attending discussions, clearly are to continue the policy patterns of the past two years, with a strong emphasis on the goal of narrowing the imbalance in trade with the developed market economies, to be achieved both by pushing exports and by holding down severely the growth of imports.

The national economic plans for 1978 of several of the socialist countries specify target growth rates for exports and imports, in some cases broken down by currency region; in other countries only turnover targets (exports plus imports) are provided (table III-8). A rough aggregation of these targets yields an intended growth of two-way trade of some 10 per cent. Though it is usually not clear whether these targets are meant to represent volume or value changes, they are more likely to approximate the former than the latter. If this interpretation is correct, some acceleration is intended relative to the performance in 1977 when trade volume increased by 5 to 7 per cent. All countries supplying separate targets for exports and imports and for trade by direction (Czechoslovakia, Hungary, Poland) expect growth of exports to exceed that of imports, imports from socialist countries to grow faster than imports from market economies, and exports to the market economies to advance more rapidly than deliveries in intraregional trade. The targets for these countries imply a slightly lower growth of intra-CMEA trade than in 1977; they also imply some further deepening of the intraregional imbalance, probably centring on the growth of required raw material supplies from the Soviet Union. In trade with the market economies, the targets envisage export growth of 12 to 13 per cent - a substantial acceleration if they are conceived in volume terms - and they project an import expansion of 2 to 3 per cent after the absolute decline of 1977.

The full implementation of the planned trends in trade with the market economies may turn out to be difficult with respect to both the acceleration of export growth and the constraint on import expansion. The export growth goals appear to be quite ambitious in the light of aggregate demand trends and protectionist tendencies in the developed market economies. As noted elsewhere in the present issue of the World Economic Survey, import demand in the OECD countries is projected to grow at less than 2 per cent in 1978. While exports to developing countries may again grow rapidly, their weight in total exports to market economies is too small in the case of most of the Eastern European countries to provide much compensation for weak demand in the industrial market economies. On the other hand, though the constraints on import growth are supported by domestic aggregate demand policy in the socialist countries, especially the revisions of investment programmes and schedules and the attendant cutbacks in machinery and equipment imports, other factors tend to work in the opposite direction. In several countries, especially Poland and the USSR, the 1977 harvest results have made it desirable to increase fodder and grain imports in 1978 substantially above the 1977 level. Further, the drive to adjust trade deficits by "rationalizing" imports of industrial inputs and eliminating non-essential components was in some cases conducted by strongly administrative means which may have led to the running down of inventories, an approach that will probably be difficult to sustain in view of the planned production growth rates and existing supply imbalances. 56/ Actual imports from market economies - developed and developing - may therefore recover at a somewhat higher rate than is implied in the plan targets. Though this will imply a slower reduction of deficits than anticipated, available credit lines and borrowing facilities appear to be amply sufficient to sustain the present level of imbalance.

Regional integration policies

Regional integration activities in CMEA in 1977 were centred on: (a) the further implementation of the Concerted Plan of Multilateral Integration Measures; (b) the strengthening of production specialization as a result of bilateral and multilateral agreements concluded earlier and the continuous search for deepening regional specialization; (c) the formulation of Long-term Target Programmes, which will give more concrete form to special aspects of the integration topics contained in the Comprehensive Programme for the Further Extension and Improvement of Co-operation and the Development of Socialist Economic Integration of the CMEA Member Countries; 57/ (d) the strengthening of scientific and technological co-operation; and (e) the further elaboration of contacts with other countries.

In the implementation of the joint investment projects contained in the Concerted Plan, progress was in some cases well ahead of the schedule set for 1977. The largest project currently under construction - the Orenburg gas-condensate facility and the Soiuz gas pipeline connecting Orenburg with the western border of the Soviet Union - continued to absorb a substantial proportion of the resources committed to joint integration projects. Capital outlays of at least TR 1.2 billion and some 15,000 workers from the participating countries as well as financial resources acquired in Western markets (in 1977 some $1.1 billion) were allocated to the project. 58/ At the end of 1977, roughly 93 per cent of the pipeline bed was completed (which was more than had been planned); the remaining portion of the construction work should be finished ahead of schedule by the third quarter of 1978, 59/ when the first deliveries of natural gas from the Orenburg sources are anticipated.

Work on the other main projects also proceeded as scheduled. The high-voltage transmission line between Vinnitsa (USSR) and Albertirsa (Hungary) was almost

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56/ This question may arise especially in the case of Poland, where over-all import expansion is for the second year targeted below the growth rate of industrial output and even of net material product. The tightness of foreign trade targets is fully acknowledged in Polish policy discussions - see W. Szyndler-Glowacki, "Trudne zadania", Zycie gospodarcze (Warsaw), 26 March 1978.

57/ Moscow, CMEA Secretariat, 1971; also published as a letter addressed to the Secretary-General of the United Nations (A/C.2/272).

58/ Ekonomicheskoe sotrudnichestvo stran-chlenov SEV (Moscow), 1977, No. 4 and "Deiatel'nost' Soveta Ekonomicheskoi Vzaimopomoshchi v 1977 godu", Ekonomicheskaia gazeta (Moscow), 1978, No. 14, p. 20. The capital spending figure relates to the first 11 months of 1977. World Bank, Borrowing on International Capital Markets (Washington, D.C.), March 1978, pp. 11 and 53, reports the Euro-currency credits taken up by the International Investment Bank of the CMEA member countries in 1977.

59/ "RGW: gute Ergebnisse - klare Ziele", Die Wirtschaft (Berlin), 1978, No. 2, p. 27.

completed in 1977. This line will be crucial in connecting the linked electrical power networks of Eastern Europe with the system of the Soviet Union - the first step towards a fully integrated energy network of the European CMEA countries. Rapid progress was also reported for the cellulose project in Ust'-Ilimsk and the absbestos project in Kiembaev.

Preparatory work on the formulation of the Long-term Target Programmes was stepped up. This new instrument of joint economic planning is expected to affect profoundly the course of economic integration in the next 10 to 15 years in five important sectors: fuels and raw materials, machine construction, food-stuff and agriculture, industrial consumer goods and transportation. These programmes are designed to enable the area to cope with selected aspects of plan co-ordination that are difficult to accommodate within a framework focusing on annual and medium-term national economic plans.

At its thirty-first session at Warsaw (June 1977), the Council decided to focus attention in the months ahead primarily on the completion of the programmes for fuels and raw materials and for agriculture and food-stuff and the part of the machine-construction programme that supports the other two sectors. Draft programmes will be completed early in 1978, to be submitted to the Council at its thirty-second session in the middle of the year. Some concrete details about the goals and instruments of these programmes are gradually taking shape. Among the projects to be included in the fuel and energy programme will be co-operation in the construction of atomic power stations in the USSR and the further extension of the high-power voltage lines needed to link up the Soviet and East European power networks, including the Yugoslavian network and, at a later stage, the Mongolian network. This project is expected to be completed by 1990, according to a recommendation of the CMEA Executive Committee in October 1977. 60/ Several other partial plans or components of the over-all Target Programmes have already been agreed upon (for example, specialization in the construction of fast breeder reactors, equipment for using atomic energy, conversion of solid fuels into gas and liquid fuels and curtailment of specific energy use) but precise details are still lacking.

As a result of the continued extension of specialization measures, the centrally planned economies are becoming increasingly interdependent; and the share of specialized products in regional exports and imports has further expanded at a very rapid pace. Most of these specialized trade flows result from general, bilateral or multilateral agreements concluded between the CMEA countries. At the end of 1977, some 630 multilateral and bilateral agreements on specialization and co-operation in production were in force and a large number of additional agreements were in process of negotiation between CMEA member countries. Several were signed in 1977, including six on specialization and co-operation in the production of foundry and other heavy industry technology. Other agreements concerned the production of refined specialty metals, medical and household equipment and so on.

Although concrete data are not yet available, it would seem that the tendency that has been observed during the past few years for growth in the export

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60/ A general agreement on this programme was signed in December 1977 (Ekonomicheskaia gazeta (Moscow), 1978, No. 14, p. 20).

of specialized products to surpass by a wide margin the growth in over-all regional exports continued in 1977. 61/

Co-operation in science and technology among the CMEA members was intensified. Efforts are increasingly being co-ordinated at the level of the special CMEA Committee for Scientific-Technological Co-operation, which now oversees some 53 specialized co-ordination centres, three international scientific commissions and a large number of other scientific institutions or organizations of the member countries. 62/ At the end of 1977, some 1,600 research centres of these economies were engaged in 800 multilateral research projects, especially in the fields of energy and raw materials production and utilization. The goal is to avoid duplication of work and to focus the growing outlays on research and development, which in 1977 claimed between 3 and 5 per cent of net material product in every one of the CMEA countries, 63/ on the key sectors for output and productivity growth.

As an innovation in the practical aspects of plan co-ordination - the chief instrument used for enhancing socialist economic integration - the Council at its thirty-first session approved a procedure for dovetailing the national economic plans of the member countries in the next medium-term period, 1981-1985. These plans are expected to be fully co-ordinated also with the Long-term Target Programmes, a task on which work has already begun.

While further steps for the improvement of financial and monetary co-operation among the CMEA members were studied in 1977, no major decisions were reported in this sphere. IBEC, the clearing bank of the group, instituted several measures recommended by the CMEA Standing Commission for Currency and Financial Problems to improve intraregional settlement and worked on the expansion of financial relations with non-member countries under the new (October 1976) provisions for third-party participation in transferable rouble clearings. 64/ Agreements in this sphere were concluded between IBEC and the National Bank of Yugoslavia during the year. Viet Nam, which has observer status in CMEA, joined IBEC and IIB as a full member. To facilitate accounting in the sphere of CMEA joint investments, the socialist

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61/ In the German Democratic Republic, the share of machinery traded under specialization agreements in total regional exports of machinery and equipment increased from 23 per cent in 1975 to 35 per cent in 1977 (G. Grüner, "Sozialistische ökonomische Integration", Die Wirtschaft (Berlin), 1978, No. 1, p. 21).

62/ V. I. Kirillin, "Aktual'nye problemy povysheniia effektivnosti nauchnotekhnicheskogo sotrudnichestva stran-chlenov SEV", Ekonomicheskoe sotrudnichestvo stran-chlenov SEV (Moscow), 1977, No. 5, pp. 32-35.

63/ "RGW: gute Ergebnisse - klare Ziele", Die Wirtschaft (Berlin), 1978, No. 2, p. 27.

64/ As of January 1977 new interest rates for deposits in transferable roubles by member countries went into effect (see V. Garbuzov, "Mezhdunarodnaia valiutno-finansovaia sistema stran-chlenov SEV na sovremennom etape", Ekonomicheskoe sotrudnichestvo stran-chlenov SEV (Moscow), 1977, No. 3, p. 73, and Yu. F. Konstantinov, "Perevodnii rubl': opyt i perspektivy izpol'zovaniia", Ekonomicheskaia gazeta (Moscow), 1977, No. 26, p. 20).

banks introduced at the beginning of 1977 new exchange coefficients for the transferable rouble valuation of country contributions to these projects. 65/

As a result of the rapid growth in reciprocal trade and the stepped-up activity in joint construction of major infrastructural undertakings, the transactions conducted by IIB and IBEC expanded considerably in 1977. Mutual trade turnover and other reciprocal payments funnelled through IBEC's facilities increased by 14.8 per cent to TR 94.7 billion; and the bank extended accounting and short-term credits of TR 6.9 billion (an increase of 63.5 per cent over 1976) in order to accommodate the sharply increased intra-CMEA trade imbalances. Disbursements on credit commitments for 46 projects launched by IIB in 1971-1977 amounted to TR 826.4 million - an increase of more than 22 per cent over 1976. 66/

Asian centrally planned economies

Despite some increase in the volume of data, the information on the economic development of the Asian centrally planned economies remains mainly qualitative and rather fragmentary. The available information suggests that in spite of a difficult agricultural year economic growth resumed in China in 1977 and improved in Mongolia, but that the situation was probably less favourable in the Democratic People's Republic of Korea and in Viet Nam.

In China, national attention was turned in 1977 to the reorganization of the economic sphere. The results for the year, however, were probably dominated by agricultural production which still very much determines the over-all growth of the national economy; in 1977 agricultual production suffered from severe natural disasters, including drought and frost. In extent and seriousness, the effects were said to be among the worst in the past 30 years. None the less, a fairly good harvest was reported, with grain output at the previous year's level and the output of such industrial crops as cotton, jute, hemp, cured tobacco and tea above the 1976 yields. 67/ In the face of growing requirements for domestic consumption, grain imports increased sharply from 2 million tons in 1976 to about 6.8 million tons in 1977. 68/

65/ Details on the new exchange rates are not yet available. The revision of the rates applied since 1974 was reported in P. Spacek and F. Kudrna, "Bílá místa v menovém systému", Hospodářské Noviny (Prague), 1978, No. 4, p. 10.

66/ "Deiatel'nost' Soveta Ekonomicheskoi Vzaimopomoshchi v 1977 godu", Ekonomicheskaia gazeta (Moscow), 1978, No. 14, p. 21.

67/ Hsinhua (Peking), 28 December 1977.

68/ Based on trade partner data, as reported in United States of America, Department of Agriculture, Foreign Agriculture (Washington, D.C.), 30 January 1978. Substantial grain import orders, totalling an estimated 8 million tons, have been placed for 1978 delivery, including the first purchases in the United States since 1974 (Wall Street Journal (New York), 9 February 1978; New York Times, 11 April 1978).

In industry, many targets of the annual plan were reported to have been achieved by the end of November; the output increase for the full year was estimated to be over 14 per cent. 69/ It should be noted, however, that the 1976 base may have reflected reduced activity levels, in which case the growth rate would reflect a substantial element of recovery. Most basic inputs for which data are available in fact grew at lower rates. Coal and steel output, which in 1976 had suffered from the disruption of major capacities by the earthquake at Tangshan, recovered with production increases of 10 and 11 per cent, respectively. Electric power production grew by almost 10 per cent and crude petroleum output by 8 per cent (a deceleration from the rate of growth in recent years) but natural gas increased by 22 per cent. 70/ The metallurgical industry met ahead of schedule all 1977 targets for steel, rolled steel, pig iron and non-ferrous metals, against a background of high and stable output. 71/

Nineteen seventy-seven was apparently the first year in recent experience in which wages and salaries showed an upward movement. Over 60 per cent of Chinese workers received an increase in wages; no further details are, however, available. 72/ A greater emphasis seems to have been placed on consumer goods industries. The output of cotton yarn and cloth increased by 12.6 per cent and 13.5 per cent, respectively. The relatively slow growth of consumer goods industries in recent years was largely influenced by the lagging pace of the agricultural sector, reflecting the dominance of agro-based industries.

In foreign trade, China appears to have maintained - and probably enlarged - the export surplus position which had been achieved in 1976. The 1976 achievement had been realized by a sharp cut-back of imports but in 1977 both exports and imports increased. In trade with the market economies, exports appear to have grown by about 8 per cent, from $7.2 billion to $7.8 billion, while imports rose by 7 per cent, from $6.0 billion to $6.4 billion. The surplus with this group of countries thus rose from $1.2 billion to $1.4 billion. 73/ According

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69/ Peking Review, 13 January 1978.

70/ Hsinhua (Peking), 27 December 1977 and 10 January 1978. All growth rates are for the first 11 months of 1977.

71/ Hsinhua, 10 January 1978. The number of tractors produced in the first 11 months was up by 39.8 per cent over the corresponding period of 1976 and the plan target for chemical fertilizers was met 21 days ahead of time with total output exceeding that of the corresponding period of the peak year of 1975 by 31.9 per cent.

72/ Peking Review, 20 January 1978.

73/ Estimate by the Japanese External Trade Organization, based on incomplete partner data (Chugoku keizai kenkyu geppoh (Tokyo), March 1978). Chinese shipments to Japan increased by 13 per cent and China's purchases from Japan by 17 per cent, both after declines in 1976.

to a national report, total trade turnover increased by more than 12 per cent. Manufactured goods accounted for 63 per cent of exports. In imports, equipment for oil exploration, coal mining, power generation, fertilizer and petro-chemical production played a significant role, though some consumer goods were also imported. 74/ Two important long-term trade agreements were concluded early in 1978 with China's major trade partner among the developed market economies, Japan, and with the European Economic Community; and a resumption of import growth is expected once the modernization programme of China's 10-year plan takes concrete shape.

Early in 1978, the draft outlines of the 10-year plan for 1976-1985 were presented to the National People's Congress and some of the general targets - though little detail - were publicly announced. 75/ For the next eight years, industrial output is to grow by 10 per cent annually and agricultural production by 4-5 per cent a year. Steel output is to rise by 1985 to 60 million tons and grain production to 400 million tons, targets which imply growth rates of some 13 per cent annually for steel and perhaps 4 to 5 per cent annually for grain. 76/ A large investment programme for basic industries and economic infrastructure is to be launched, consisting of 120 major projects, including 19 metallurgy complexes, 8 coal mines, 10 oil and gas fields, 30 power stations, 6 new trunk railroads and 5 important harbours. Capital expenditures for the eight years are expected to equal the outlays effected over the entire period since 1950. A "big increase" in foreign trade is expected but no detail was provided.

In Mongolia, the economic performance in 1977 appears to have been slightly better than in the preceding year. Although macro-economic aggregates have not yet been published, preliminary and component data suggest that national income may have increased by 5 to 6 per cent, as against a 4.3 per cent increase in 1976. However, the plan target (7.3 per cent) could not be met. The extremely severe weather conditions in the winter of 1976/1977 took a heavy toll on herds and the plan target for a 13 per cent output growth in the livestock sector could not be met, though output may have risen by some 5 per cent. The performance in the crop sector was much better but this sector still has a relatively small weight. Mongolia pursued a policy directed towards gradually moving away from its heavy reliance on livestock and towards improving its export prospects by diversifying into crop-growing, ore-mining and manufacturing. In industry, output growth was 4 per cent, that is, 1.2 per cent below the plan target and less than in 1976 (6 per cent). This was probably due to the sluggish performance of

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74/ Hsinhua (Peking), 15 January 1978.

75/ Peking Review, 10 March 1978. In his "Report on the work of the Government", Chairman Hua Kuo-Feng noted that the plan had been originally prepared in 1975 but that its implementation was prevented by the political turmoil of the 1975-1976 period. Though the revised version submitted to the Congress covers the eight years 1978-1985, the programme is still referred to as the 10-year plan.

76/ Steel output in 1977 was probably about 23 million tons. The last officially reported grain figure (275 million tons), refers to 1974.

the food and light industries related to the livestock sector of agriculture, as well as to delays in the commissioning of new industrial capacities. 77/

Only scattered data were published on the course of development in the Democratic People's Republic of Korea in 1977. In spite of unfavourable weather conditions in early spring, grain production increased to 8.5 million tons, as against 8 million tons in the preceding year, but the plan target of 10 million tons was not reached. In industry, policy concentrated on removing some imbalances that had built up during the implementation of the six-year plan (1971-1976). In foreign trade, the payments difficulties which the country has been struggling with for a number of years appear to have forced a further reduction of imports. Exports registered a small increase and the merchandise trade deficit a corresponding decline; however, this improvement was concentrated in the relationship with socialist trade partners. 78/ The year 1977 was considered an adjustment period between medium-term plans. Targets for the second seven-year plan (1978-1984) were announced in December 1977. 79/ The programme sets a somewhat lower growth pace than did the preceding medium-term plan, with a target rate of 12.1 per cent annually for industrial output as against the 16.3 per cent of the 1971-1976 period. Capital goods production and consumer goods production are to grow at almost the same rate. In the sphere of producer goods, the plan emphasizes the development of the raw materials and fuel base of the economy. Coal production is to increase from the current amount of 50 million tons to 70 to 80 million tons by the end of the period. Both steel and electricity output are to double, the former from a base of 4 million tons to about 8 million tons, the latter from 30 billion kWh to 56-60 billion kWh. In agriculture, more modest rates of increase are envisaged, with a grain target of 10 million tons for 1984 as against the 8.5 million reaped in 1977. 80/

In Viet Nam, 1977 appears to have been a very difficult year, due mainly to natural disasters and the need to spend substantial amounts of foreign exchange for imports of food-stuff. The current five-year plan for 1976-1980 calls for the production of 21 million tons of grain by 1980. The target for 1977 was over 12 million tons to be produced from about 5.3 million hectares; however, output was only 11.3 million tons due to drought and cold weather in the northern provinces and drought in the central and southern provinces. The target for rice production in 1978 has been set at 13.5 million tons. The sugar-cane area in 1977 was about 60,000 hectares and the 1978 plan calls for an increase in area to 80,500 hectares and production of about 160,000 tons of sugar cane.

77/ Biulleten' inostrannoi kommercheskoi informatsii (Moscow), 14 February 1978.

78/ Exports to developed market economies declined by 22 per cent; but a substantial increase was registered in exports to the European centrally planned economies, for a net export increase of about 10 per cent. Imports from both partner groups declined by about 9 per cent and the merchandise trade deficit with these two country groups fell from about $260 million to about $180 million.

79/ The first seven-year plan covered the period 1964-1970.

80/ Financial Times (London), 25 April 1978.

In 1977 Viet Nam attempted to increase exports by 55 per cent. According to Western estimates, based on partner statistics for the first half of 1977, Viet Nam's exports have risen by 30 per cent to an estimated $304 million. Imports appear to have increased by about 13 per cent, to an estimated value of $942 million - thus resulting in a trade deficit of $638 million, compared with an estimated $604 million deficit in 1976. 81/

81/ International Currency Review (London), Vol. 10, No. 1 (1978), p. 58.

Table III-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	1976-1977, actual	1973, actual	1974, actual	1975, actual	1976, actual	1977 Planned	1977 Actual	1978, planned
Albania	6.6	6.6-7.0	...	...	...	...	...	...	...	...
Bulgaria	7.8	7.7	6.5	8.0	7.4	8.8	6.5	8.2	6.3	6.8
Czechoslovakia	5.7	4.9-5.2	4.1	5.2	5.9	6.2	3.7	5.2	4.5	4.9
German Democratic Republic	5.4	5.0	4.5	5.6	6.4	4.9	3.7	5.5	5.2	5.2
Hungary	6.2	5.4-5.7	5.4	7.4	6.9	5.4	3.0	6-6.5	7.5-8	5
Poland	9.8	7.0-7.3	6.4	10.8	10.4	9.0	7.1	5.7	5.6	5.4
Romania	11.3	11.0 b/	9.6	10.7	12.4	9.8	10.5	11.3	8.6	11-11.5
Eastern Europe c/	7.9	6.8-7.1	6.1	8.2	8.6	7.5	6.1	6.9	6.1	6.5
USSR	5.7	4.7	4.4	8.9	5.4	4.5	5.2	4.1	3.5	4
Eastern Europe c/ and USSR	6.3	5.3-5.4	4.9	8.7	6.3	5.4	5.5	4.9	4.3	4.7

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

a/ National income produced, except for the USSR where for the planned rates and for 1977 the reference is to national income domestically utilized.

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

c/ Not including Albania.

Table III-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			Increase over preceding year						
	1971-1975, actual	1976-1980, planned	1976-1977, actual	1973, actual	1974, actual	1975, actual	1976, actual	1977 Planned	1977 Actual	1978, planned
Albania	8.7	7.1-7.6	5.3	9.4	7.3	4	4.1	9.3	6.6	8.5
Bulgaria	9.0	9.2	7.1	9.0	8.1	9.6	6.7	9.2	6.8	7.7
Czechoslovakia	6.7	5.7-6.0	5.6	6.8	6.3	7.1	5.5	5.3	5.7	5.1
German Democratic Republic. .	6.5	6.0	5.7	6.8	7.2	6.4	5.9	5.1	5.4	5.7
Hungary	6.4	5.9-6.2	5.7	7.0	8.4	4.6	4.6	6	6.8-7	5.5-6
Poland	10.4	8.2-8.5 b/	8.9	11.2	11.4	10.9	9.3	6.3-7.3 b/	8.6 b/	6.8 b/
Romania	12.9	11.5 c/	11.9	14.6	14.6	12.0	11.4	10.5	12.5	10.6
Eastern Europe d/	8.7	7.5-7.8	7.7	9.3	9.4	8.8	7.6	6.9	7.7	6.9
USSR	7.4	6.3	5.2	7.5	8.0	7.6	4.8	5.6	5.7	4.5
Eastern Europe d/ and USSR	7.8	6.6-6.8	6.0	8.0	8.4	7.9	5.6	6.0	6.3	5.2

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

(Percentage)

Country	Average annual rates			Increase over preceding year						
	1971-1975, actual	1976-1980, planned	1976-1977, actual	1973, actual	1974, actual	1975, actual	1976, actual	1977 Planned	1977 Actual	1978, planned
Albania	3.9	2.8-3.2	...	...	...	...	...	2.7	...	3.6
Bulgaria	7.0	7.7 b/	6.8	8.0	6.0	7.9	7.0	8.1 b/	6.5	...
Czechoslovakia c/	6.3	...	5.2	6.4	6.0	6.8	5.7	4.4	4.7	...
German Democratic Republic	5.2	5.4	5.3	5.7	6.0	5.3	5.4	5.1	5.2	5 d/
Hungary	6.3	6.2	6.2	5.8	7.5	4.9	5.4	6	7-7.2	...
Poland e/	7.5	7.7	8.6	8.2	8.8	9.3	8.8	7.2	8.3	6.7
Romania c/	6.4	9.2 f/	9.0	7.8	6.9	7.2	8.2	9.2 g/	9.8	9.0 g/
USSR	6.0	5.6	3.7	6.1	6.3	5.9	3.3	4.8	4.1	3.8

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

a/ Output per employee, except where otherwise noted.

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

c/ Manual workers only.

d/ Industrial ministries only.

e/ Socialist sector only.

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

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

Table III-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				Increase over preceding year						
	1971-1975		1976-1980,	1976-1977,	1973,	1974,	1975,	1976,	1977		1978,
	Average a/	End-years b/	planned a/	actual b/	actual	actual	actual	actual	Planned	Actual	planned
Albania	5.9	...	6.6-7.1	...	7.0	11.0	7	9.1	13.8	...	28
Bulgaria	2.2	2.9	3.7	-1.7	1.3	-1.5	7.5	4.1	4.0	-6.3	5.0
Czechoslovakia	2.9	2.6	2.6-2.8	2.5	4.7	2.2	-1.0	-2.4	8.2	7.9	3.4
German Democratic Republic	2.1	2.7	3.0 e/	-1.2	-0.8	7.3	-3.0	-5.4	2.8 d/	3.3 c/	3.5d/
Hungary	3.5	4.8	3.2-3.4	3.2	6.7	3.5	2.1	-3.0	7.8	10-11	2
Poland	3.2	3.7	3.0-3.5 b/	0.5	7.3	1.6	-2.1	-0.7	5.3	0.8	6.1
Romania	4.7	6.4	6.9-9.0 c/	7.6	1.0	1.1	2.8	17.4	1.9-13.6	-1.3	6.9-16.1
Eastern Europe f/	3.1	3.8	3.3-3.9	1.6	4.1	2.4	-0.1	1.2	...	2.1	...
USSR	2.5	0.5	3.0	3.6	16.1	-2.7	-6.3	4.1	7.8 c/	3	6.8c/
Eastern Europe f/ and USSR	2.7	1.6	3.1-3.3	2.9	11.9	-1.0	-4.2	3.0	...	2.7	...

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

a/ Change in the five-year average output from the ave4age of the preceding five years, expressed as annual compound rate.

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

(Percentage)

Country	Average annual rates: 1971-1975, actual	Average annual rates: 1976-1980, planned	Average annual rates: 1976-1977, actual	Increase over preceding year: 1973, actual	1974, actual	1975, actual	1976, actual	1977: Planned	1977: Actual	1978, planned
Albania	8.4 b/	6.2-6.6	...	...	...	...	13.7 c/	14	...	17.8
Bulgaria	8.6	7.1	3.1	6.9	7.8	17.3	0.6	3.9	6.1	4.5
Czechoslovakia	8.2	6.3-6.6	4.9	9.2	9.3	8.3	3.6	5.8	6.3	5.6
German Democratic Republic	4.1	5.8	7.5	7.6	3.4	6.1	9.1	6.5	6	2.1
Hungary	7.1	4.6-4.7 d/	6.3	3.6	9.2	13.7	0	4-5 d/	13 d/	0
Poland	18.4	7.4 a/	2.5	25.0	22.5	14.2	2.5	...	2.5 d/	-1.5
Romania	11.5	12.9	9.8	8.3	13.2	15.1	8.2	16.7	11.5	16.8
USSR	7.0	4.7 c/	3.8	4.7	7.1	8.6	4.5	3.0	3	3.4

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.

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

(Percentage)

	Average annual rates			Increase over preceding years						
	1971-1975, actual	1976-1980, planned	1976-1977, actual	1973, actual	1974, actual	1975, actual	1976, actual	1977 Planned	1977 Actual	1978, planned
Bulgaria										
Personal income _per capita_ (real)	6.1	3.7	...	8.5	4.9	5.6	4.4 a/	...	...	3.6
Average wage (nominal) . . .	3.2	...	...	5.7	2.5	2.6	...	...	2	...
Retail sales (real).	7.8	7.0	5.2	8.8	9.5	7.8	7.3	7 b/	3.2	4.4
Total consumption (real) . .	7.2	...	5.5	6.4	7.1	8.2	7.1 c/	...	4.0	5.0
Czechoslovakia										
Average wage (real) d/ . . .	3.5	2.5-2.8	3.4 b/	3.1	2.9	2.6	1.8	3.0 b/	3.5 b/	...
Retail sales (real)	5.5	...	3.7 b/	5.8	7.5	2.8	2.9	3.9 b/	3.8 b/	3.9
Total consumption (real) . .	5.3	...	...	5.8	6.2	2.9	3.2	3.9 e/	...	...
German Democratic Republic										
Personal income _per capita_ (real)	5.4	3.9-4.2 f/	...	6.1	6.0	4.0	4.6	...	...	...
Average wage (nominal) d/. .	3.5	...	4.1	2.6	3.7	3.4	3.5	...	4.7	...
Retail sales (nominal) . . .	5.0	4.0	4.4	5.8	6.1	3.5	4.6	4.0	4.3	4
Total consumption (real) . .	5.3	4.1	...	5.1	6.7	4.0	4.4	...	...	...
Hungary										
Personal income _per capita_ (real)	4.6	3.4-3.7	2.6	5.0	6.4	4.0	0.8	3.5-4	4.5	3-3.2
Average wage (real).	3.3	2.7-3.0	1.8	2.8	5.6	3.9	0.1	2.5-3	3.5	2.8-3
Retail sales (real).	6.2	5.1-5.4	3.8	5.8	9.2	5.4	1.4	8-9 b/	6.2	4
Total consumption (real) . .	5.1	...	...	4.7	7.5	4.7	2	...	...	...

Table III-6 (continued)

(Percentage)

Country and indicator	Average annual rates: 1971-1975, actual	Average annual rates: 1976-1980, planned	Average annual rates: 1976-1977, actual	Increase over preceding year: 1973, actual	1974, actual	1975, actual	1976, actual	1977 Planned	1977 Actual	1978, planned
Poland										
Average wage (real) d/ . . .	7.2	3.0-3.4	3.1	8.7	6.6	8.5	3.9	2.0	2.3	1.8
Retail sales (nominal) g/ . .	12.7	7.3-7.7 f/	12.5	12.5	14.4	15.7	12.9	...	12.2	12 h/
Total consumption (real) . .	8.7	...	...	8.1	7.4	11.1	8.8	3.7	...	3.4
Romania										
Personal income per capita (real)	6.8	5.2-6.0 i/	8.0 j/	4.8	6.1	5.8	8.8	5.9-6.3	8.2 j/	7.9 j/
Average wage (real).	3.7	5.8 k/	5.9	3.2	4.5	6.9	6.2	3.2-3.8	5.7	7.5
Retail sales d/, g/ (real) .	8.2	8.7 i/	7.4	7.5	10.2	7.8	8.6	8.4 b/	6.7 b/	10.0 b/
USSR										
Personal income per capita (real)	4.4	3.9	3.6	5.0	4.0	4.5	3.7	3.8	3.5	3.0
Average wage (nominal) . . .	3.6	3.2	3.1	3.6	4.6	3.3	3.6	2.0	2.7	2.2
Retail sales (nominal) . . .	6.3	5.2	4.5	5.2	5.9	7.0	4.6	5.3	4.4	3.9
Total consumption (nominal).	5.8	5.1	...	5.1	5.6	6.4	5.0	...	...	...

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

a/ May refer to total rather than per capita value.

b/ Nominal.

c/ Estimated from per capita figures.

d/ Socialist sector only.

e/ Estimated from components.

f/ Preliminary draft of medium-term plan ("plan directives").

g/ Goods only.

h/ Goods and services.

i/ Estimated from total value.

j/ Total.

k/ Programme of raising living standards 1976-1980 (Scînteia (Bucharest), 16 December 1977), which supersedes the original five-year plan targets (3.4-4.1 per cent annually for average real wage, 7.7-8.1 per cent annually for the volume of retail sales).

Table III-7. Centrally planned economies of Eastern Europe and the USSR: foreign trade, by direction, 1971-1976

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

Origin and destination b/	Exports: Value, 1977	Exports: Growth rates 1971-1975	Exports: Growth rates 1974	Exports: Growth rates 1975	Exports: Growth rates 1976	Exports: Growth rates 1977	Imports: Value, 1977	Imports: Growth rates 1971-1975	Imports: Growth rates 1974	Imports: Growth rates 1975	Imports: Growth rates 1976	Imports: Growth rates 1977
Eastern Europe to or from:												
World	54.0	14.8	20.1	16.2	11.4	12.2	59.8	17.3	30.6	17.0	10.9	10.0
Centrally planned economies. .	34.2	14.0	10.2	24.4	11.8	13.5	35.9	14.4	15.6	28.6	11.9	16.8
Developed market economies . .	14.5	15.2	34.0	-2.2	12.1	7.8	19.4	22.9	48.6	5.3	8.2	-2.0
Developing countries	5.3	20.1	57.6	26.5	6.6	16.0	4.5	18.1	74.5	-0.2	17.2	14.1
USSR to or from:												
World	45.2	15.8	31.2	15.9	16.6	18.7	40.9	20.4	21.2	41.6	7.9	4.7
Centrally planned economies. .	22.2	13.7	17.1	33.5	12.0	15.5	19.6	13.7	6.8	30.1	8.0	13.6
Developed market economies . .	13.5	26.3	69.8	-0.2	26.5	13.2	14.8	30.5	36.2	56.3	11.8	-7.2
Developing countries	9.5	13.0	19.3	3.2	14.4	36.9	6.5	22.6	43.1	43.4	-2.7	11.3

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 1977 are preliminary estimates.

b/ "Eastern Europe" here and in the following table 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 III-8. Centrally planned economies of Eastern Europe and USSR: growth of foreign trade value, by country group, 1971-1980 a/

(Percentage)

	Average annual rate				Change from preceding year											
	1971-1975, actual		1976-1980, planned		1974, actual		1975, actual		1976, actual		1977 Planned		1977 Actual		1978, planned	
Country and partner group	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Bulgaria																
Total	14.1	19.6	9.9		16.3	32.3	22.1	24.8	14.5	3.8	...	...	15.8	11.5	11.5	
Centrally planned economies	14.0	18.3	...	...	9.1	15.8	28.3	30.4	16.6	10.9	...	...	15.2	16.5	...	...
Developed market economies	5.8	24.5	...	...	10.2	85.7	-5.0	27.5	23.7	-17.0	...	...	8.7	-7.6	...	...
Developing economies . . .	27.0	17.2	...	...	93.5	80.7	16.5	-22.2	-5.4	9.8	...	...	28.8	12.4	...	...
Czechoslovakia																
Total	11.3	13.8	6.2-6.5		16.7	22.8	13.2	15.3	11.8	10.4	9.2		12.4	12.9	7.9	6.5
Centrally planned economies	11.7	14.0	...	...	9.3	15.1	21.8	25.7	16.7	11.3	7.8	12.0	10.5	14.1	4.0 b/	8.8 b/
Developed market economies	10.6	14.3	...	...	31.0	36.6	-5.4	2.5	3.4	9.8	20.4	...	12.9	5.7	13.3 c/	3.3 c/
Developing economies . . .	10.2	9.4	...	...	32.4	37.0	12.3	-11.2	-2.8	4.4		...	24.7	31.6		
German Democratic Republic																
Total	12.8	14.0	...	...	16.3	22.8	15.3	17.0	12.6	16.9	8.7		7		11	
Centrally planned economies	12.5	12.9	8.4 b/		7.8	12.6	22.9	30.6	9.2	11.5	...	...	10	18	...	...
Developed market economies	13.7	16.6	...	...	38.6	29.5	-3.4	1.5	20.7	26.8	...	...	-10		...	...
Developing economies	11.8	14.6	...	...	27.1	135.7	26.4	-14.9	19.9	24.5	...	...	14		...	...
Hungary																
Total	13.9	15.9	7.5-8.2	5.9-6.5	11.6	36.8	11.2	20.6	3.1	-3.1	13-14	7-8	16.5	16.2	11.0	7.1
Centrally planned economies	15.8	16.1	7.3-7.7 b/	5.7-6.2 b/	8.6	22.4	20.0	40.9	-0.7	-4.8	12 b/	7 b/	17.0	13.6	10 b/	10 b/
Developed market economies	9.2	15.7	9.9-10.5 c/	6.3-7.0 c/	11.6	59.1	-8.7	-6.8	9.5	-3.2	17-18 c/	8 c/	16.4	18.8	12-13 c/	3-5 c/
Developing economies . . .	14.3	14.8			50.6	61.3	11.8	9.1	6.9	6.6			13.9	19.9		
Poland																
Total	19.2	23.6	11.8	4.7	29.4	33.4	23.7	19.6	7.1	10.6	13.0	2.7	11.4	5.5	10	5
Centrally planned economies	17.5	13.8	...	...	18.0	14.2	32.8	23.7	7.2	13.4	...	...	12.2	16.4	8	9
Developed market economies	21.8	39.8	...	...	37.6	51.4	9.0	16.0	8.0	9.8	15 c/	1 c/	9.9	-4.3	12	2
Developing economies . . .	21.9	20.4	...	...	100.4	65.1	32.4	21.6	3.3	-5.4						
Romania																
Total	19.0	17.7	12-13 d/	10-11 d/	30.4	46.8	9.6	3.8	14.9	14.1	15.5		14.6	15.1	19.1	
Centrally planned economies	13.4	12.5	...	...	6.8	18.8	16.9	19.4	13.9	19.7	...	...	...	...	...	...
Developed market economies	20.4	19.5	...	...	52.7	65.5	-9.3	-9.7	15.4	-3.0	...	...	...	...	...	...
Developing economies	37.1	35.8	...	...	56.7	86.5	48.2	14.8	16.2	51.7	...	...	...	...	...	...
USSR																
Total	15.8	20.4	6.0		31.2	21.2	15.9	41.6	16.6	7.7	...		18.7	4.7	10	
Centrally planned economies	13.7	13.7	...	...	17.1	6.8	33.4	30.1	12.0	8.0	...	...	15.5	13.6	...	...
Developed market economies	23.1	30.5	...	...	69.8	36.2	-0.2	56.3	26.5	11.8	...	...	13.2	-7.2	...	...
Developing economies	13.0	22.5	...	...	19.3	43.1	3.2	43.4	14.4	-2.7	...	...	37.0	11.3	...	...

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.

Table III-9. Centrally planned economies of Eastern Europe and USSR: cumulative trade balance with developed market economies and estimates of outstanding convertible currency liabilities

(Billions of dollars)

Country	Cumulative trade balance with developed market economies, 1965 to end of year shown a/				Net liabilities with Western commercial banks, end of year b/			Estimates of net debt outstanding, end of year c/		
	1970	1975	1976	1977	1975	1976	1977	1975	1976	1977
Bulgaria	-0.5	-2.0	-2.4	-2.8	1.3	1.6	1.9	2.0	2.5	2.8
Czechoslovakia	-0.1	-1.5	-2.2	-2.7	0.0	0.5	0.8	1.2	1.8	2.4
German Democratic Republic	-0.4	-3.8	-5.2	-6.1 d/	2.0	3.0	3.4	4.2	5.1	6.1
Hungary	-0.1	-1.5	-2.0	-2.5	1.4	2.2	3.3	2.3	2.4	3.0
Poland	0.0	-6.8	-10.0	-12.3	3.4	4.8	6.4	7.1	10.2	12.6
Romania	-1.1	-2.4	-2.4	-2.7 d/	0.5	0.4	1.0	2.3	2.5	3.0
Eastern Europe	-2.2	-18.0	-24.2	-29.1	8.7	12.5	16.8	19.1	24.5	29.9
USSR	-0.6	-7.7	-11.6	-12.9	4.7	6.6	6.3	8.4	10.3	12.0
Unallocated residual	-	-	-	-	1.8	2.3	2.0	3.1	4.0	4.4
Eastern Europe and USSR	-2.8	-25.6	-35.8	-42.0	15.2	21.4	25.1	30.7	38.8	46.3

Sources: Centre for Development Planning, Projections and Policies of the United Nations Secretariat, based on national foreign trade statistics and plan fulfilment reports; Bank for International Settlements, Press Review (Basle).

a/ For definition of "developed market economies", see foot-note a to table III-8.

b/ Claims of the reporting banks in domestic and foreign currency minus deposits of centrally planned economies, as reported by Bank for International Settlements. Data cover the external position of banks in Belgium-Luxembourg, Canada, France, Federal Republic of Germany (excluding positions vis-à-vis German Democratic Republic), Italy, Japan, Netherlands, Switzerland, Sweden, United Kingdom and United States of America. Beginning with end 1975 data, branches of United States banks in the Bahamas, Cayman Islands, Panama, Hong Kong and Singapore are also included. Data from Canada, Japan, Switzerland and the United States of America are not fully broken down by partner country; the resulting residuals are shown in the last row.

c/ Lawrence Brainard, "Eastern Europe's indebtedness: policy choices for east and west" in Proceedings of an International Workshop on Monetary and Financial Problems, Budapest, October 1977, (Vienna, Institute for Comparative Economic Studies, forthcoming); L. Brainard and T. Barkas, "East Europe improves its trade", Euromoney (London), May 1978. Residual here represents estimated borrowing of CMEA banks, IBEC and IIB.

d/ Including estimates of 1977 trade flows.

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