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ECONOMIC COMMITTEE

RECENT TRENDS IN THE CZECHOSLOVAK ECONOMY

Note by the Chairman

In preparation for the forthcoming meeting with experts on 1st and 2nd July, 1976 dealing with Poland, Czechoslovakia and the GDR, I attach for your attention a contribution of the Directorate on the outcome of the 1971-1975 Czechoslovak Plan and the results for 1975.

2. As regards the 1976-1980 Plan for Czechoslovakia, two papers have been distributed: "Czechoslóvakia: Five-Year Plan 1976-1980" by the United Kingdom Delegation (informal circulation) and "Le Plan quinquennal tchécoslovaque pour la période 1976-1980 from the French Delegation distributed under AC/127-WP/475.

(Signed) J. BILLY

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N A T O C O N F I D E N T I A L

RECENT TRENDS IN THE CZECHOSLOVAK ECONOMY: SUMMARY REPORT

I. GENERAL ASSESSMENT OF 1971-1975 PLAN

1. In general Czechoslovakia came through the last Plan period rather well. The bulk of targets which aimed at improved living standards were met: officially the cost of living has risen only by some 2%-3% annually. Supplies of basic foodstuffs have sometimes been erratic, but subsidized prices were stable through the end of 1975. Czechoslovakia's living levels are second in Eastern Europe only to those of the GDR, and it even leads the COMECON group in certain sectors.

2. Nevertheless, the economy continues to reflect a number of fundamental weaknesses, particularly in the energy and foreign trade sectors. Almost completely devoid of indigenous oil supplies, the Czechoslovak economy was hard hit by the Soviet decision to raise oil prices at the beginning of 1975. Relative to 1973 the Czechoslovak bill for Soviet oil rose 175% by the end of 1975 - possibly the largest increase to be paid by any COMECON member. Additionally, above-quota deliveries will have to be paid for in hard currency or "world market" exportable goods. The result has been a decision by the authorities to adopt a double fuel system in certain key industries permitting use of both oil and natural gas. Coal reserves will also receive greater attention and investments in energy projects will increase.

3. As a result of internal difficulties in the early 1970s, Czechoslovakia did not join its COMECON allies in the East-West trade boom. Some change in this policy occurred during 1973 with the result that the 1966-1972 trade surplus with the industrialized West became a \$485 million deficit in 1973-1974. Consequently Czechoslovakia has now begun concentrating on sales to the West of its engineering and chemical products and has recently passed legislation authorizing Western companies to set up offices in Prague for the first time since 1948.

4. However, over the past Plan period, Czechoslovakia's export efficiency has suffered, especially in the machinery and equipment sector, an area in which Czechoslovakia was once a leader. Currently only around one-third of the country's engineering plant is fully modernized, so that in the next Plan period, modernization of capital assets and the phasing-out of obsolete machinery will be a key factor in investment policy. Finally a sign of greater involvement in Western markets is the fact of Czechoslovakia's first substantial loan in the West - \$60 million - a syndicated Euromarket borrowing: presumably Czechoslovakia will draw on the Euromarket more frequently over the next five years.

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II. GENERAL ASSESSMENT OF 1975 RESULTS

SUMMARY

5. Figures released for 1975 by the Federal Statistics Office indicate that the Czechoslovak national income rose by 6% against 5.5% in 1974 with industrial production increasing by 7% (1974: +6.5%) - the highest growth rate recorded for this sector during the last Five-Year Plan. However investments in capital construction projects showed a limited rise of 7.9% (1974: +8.7%). Adverse weather conditions caused a decline in agricultural output of 0.7% compared with 1974. Poor quality of consumer goods and delivery delays to retail outlets were reportedly of ongoing concern to the government. Above all, the Czech foreign trade performance was unsatisfactory and reflected a decline in this sector's growth rate: trade with capitalist countries in 1975 was practically stagnant.

SECTOR ANALYSIS

Industry

6. Eighty-seven percent of the 1975 7% increase in production was attributed to higher labour productivity. The average number of shifts worked in factories declined slightly but this negative factor was partially offset by some drop in the rate of absenteeism.

7. Leading industrial branches were cellulose and the paper industry (+10.8% over 1974) and general engineering which showed one of the highest upturns for many years with +9.2%. Reportedly apart from chemicals and the oil industry, all industrial sectors exceeded Plan targets, although the authorities were concerned with the overall unsatisfactory fuel production pattern and with the output of the steel industry - a large fuel consumer - which reflected growth rates below the national average.

Capital construction

8. Capital investments in 1975 were worth 127.4 billion koruny(1) against 117.6 billion in 1974 - a 7.9% increase. Nevertheless, throughout 1975, many problems arose in completing investment construction projects and a number were either not completed or went into production at below design capacity.

9. The authorities criticized shortcomings in design planning and deliveries of building materials and stated that

(1) Tourist exchange rate: \$1 = 10.15 koruny

costs of unfinished construction projects rose by nearly 4 billion koruny over 1974 due to price rises in materials.

10. The Czech press has called for greater attention to be paid to capital investments which will help to utilize existing manpower more rationally through modernization and lead to intensive rather than extensive growth.

Agriculture

11. Czechoslovakia was affected by poor weather conditions in 1975, although perhaps less than Hungary or the USSR. Vegetable output fell 3% behind 1974 levels, the grain crop totalled 9.3 million tonnes against 10.6 million tonnes in 1974: sugar beet production dropped to 7.8 million tonnes (1974: 8.2 million tonnes) and the potato yield was also lower. Livestock herds were also lower according to press reports, presumably due to fodder shortages, although slaughtered meat output remained the same both for 1975 and 1974 (805,000 tonnes).

Consumer sector

12. Overall monetary incomes increased 3.7% over 1974 (below Plan), the average monthly wage of industrial workers growing by 3.5%. The retail trade was depressed in the second half of the year as some prices rose and the quality of goods remained mediocre: a reported consequence was the further increase in private savings. While supplies of most consumer durables and basic foodstuffs were more readily available, shortages still persist for such durables as sewing machines -- important to the economy because hard currency stores and home-sewn clothes are the only source of stylish clothing.

Foreign trade

13. The Czechoslovak foreign trade performance in 1975 was less than satisfactory, and generally the growth rate was down. Overall imports grew by 12.6% (1974: +25.9%): in 1975 the breakdown was 23.1% with the socialist countries and 0.6% with the capitalist countries: 1974: 18.5% and 35.6% respectively. Overall exports rose by 10.9% (1974: 20.5%) with socialist countries taking 20.4% and the capitalist nations 0.2% (1974: 33.9% and 10.6% respectively).

14. As in the case of most of its East European allies, the Czech trade picture has been seriously affected by the increased prices to be paid for Soviet raw materials, particularly oil; this has obliged Czechoslovakia to channel additional exports to COMECON neighbours. In addition a practically zero growth rate was recorded with the capitalist countries and for 1976 no

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dramatic rise is anticipated with the West: trade growth with the socialist countries, which have mostly opted for a policy of restraint this year will persist to a certain extent but is unlikely to offset the continuing low trade levels with the West.

Manpower/labour productivity

15. It is clear that the slower growth rate of Czechoslovakia's labour force is having an adverse impact on the nation's economy. Exhortations to mechanize and automate have not resulted in greater output efficiency. Additionally, absenteeism is estimated at some 300,000 persons daily.

16. Modernization of plant and the reduction of absenteeism are bound to play as important a role in the years to come as they have in the last Plan period, as demographic indicators predict an annual increase of only 35,000 workers until 1990. Although untapped Czechoslovak labour reserves exist which reportedly could provide some 25% more man hours these reserves could not be mobilized in the shorter term without a substantial shift in the regional distribution of manpower.

17. To overcome the labour shortage until the high birth rate of the early 1970s affects the labour market, the country is also turning to foreign manpower. Since Czechoslovakia's allies can supply only limited labour inputs, the Czechoslovak authorities must look beyond COMECON's borders for additional workers: this, in turn, entails paying part of total wages in hard currency - a drain on already short supplies.

TABLE I

GROWTH OF SPECIFIC INDUSTRIAL SECTORS IN 1975

<u>SECTOR</u>	<u>1975</u>	<u>1974</u>	<u>+% 1975/1974</u>
Coal (tonnes)	28.1m.	27.9m.	0.5
Lignite (tonnes)	86.3m.	82.1m.	5.0
City gas (c.m.)	3.4m.	3.3m.	4.0
Electricity (kw/h)	59.2m.	56.0m.	5.7
Crude steel (tonnes)	14.3m.	13.6m.	5.0
Rolled steel (tonnes)	10.0m.	9.5m.	4.0
Chemical fibres (tonnes)	140,000	131,000	6.8
Plastics (tonnes)	428,000	390,000	9.0
Tyres (items)	2.8m.	2.7m.	2.5
Cars (units)	175,411	168,701	4.0
Trucks (units)	33,850	30,479	11.0
Tractors (units)	29,585	27,065	9.3
Refrigerators (units)	366,000	279,000	31.2
Television sets (units)	445,000	409,000	8.8
Footwear (pairs)	114m.	112m.	1.5

Source: Statisticke Prehledy, March, 1976
RFE Research (Czech Desk)

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TABLE II

CZECHOSLOVAK LABOUR FORCE 1975

Branch	Average recorded no. of workers (excluding women on maternity leave)	Increase or decrease vis-à-vis 1974	
		Absolute figure	Per cent
Socialist sector (excluding agricultural co-operatives)	6,252,408	73,385	1.2
Industry (excluding construction industry)	2,560,854	22,083	0.9
Partial breakdown of above industrial total:			
Coal mining	176,084	1,321	0.8
Power production	63,228	1,030	1.7
Metallurgy	193,111	881	0.5
Chemical industry	123,516	1,956	1.6
Rubber industry	34,937	421	1.2
Engineering	889,358	9,428	1.1
Building materials	109,862	1,355	1.2
Woodworking industry	110,814	1,948	1.8
Glass & ceramics industry	84,402	223	0.3
Textile industry	217,803	- 606	- 0.3
Clothing industry	57,305	- 812	- 1.4
Leather, footwear, furs	83,347	799	1.0
Food industry	212,967	1,602	0.8
Construction	534,700	8,991	1.7
Projecting & planning organizations	45,713	1,857	4.2
State farms	177,148	-7,037	- 3.9
State forestry	96,762	-1,608	- 1.6
Railroads	212,696	-1,972	- 0.9
Road transport	95,210	678	0.7
Communications	112,077	1,710	1.5
Retail trade	214,401	5,456	2.6
Public catering	150,022	1,371	0.9
Communal enterprises	126,306	1,028	0.8
Schools	362,897	6,478	1.8
Health sector	268,232	9,396	2.8

Source: Prace a Mzda No. 3, March 1976

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TABLE III

FOREIGN TRADE PATTERN 1975 (%)

<u>EXPORTS</u>	<u>1975</u>	<u>1974</u>
Overall rise	10.9	20.5
Socialist countries	20.4	33.9
Non-socialist countries	0.2	10.6

<u>IMPORTS</u>		
Overall rise	12.6	25.9
Socialist countries	23.1	18.5
Non-socialist countries	0.6	35.6

Source: Statisticke Prehledy, March, 1976
RFE (Czech Desk)

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TABLE IV

CZECHOSLOVAK FOREIGN TRADE WITH MAIN PARTNERS 1975
(million koruny)

Rank	Country	Total Turnover	Imports	Exports	Balance
1	USSR	31,698	16,276	15,422	- 854
2	GDR	11,976	6,188	5,788	- 400
3	Poland	8,985	4,847	4,138	- 709
4	FRG	5,996	3,271	2,725	- 546
5	Hungary	5,433	2,662	2,771	+ 109
6	Yugoslavia	3,568	1,717	1,851	+ 134
7	Romania	2,949	1,424	1,525	+ 101
8	Austria	2,797	1,618	1,179	- 439
9	Bulgaria	2,309	1,277	1,032	- 245
10	United Kingdom	2,208	1,133	1,075	- 58
11	Switzerland	1,751	1,252	499	- 753
12	France	1,552	856	696	- 160
13	Italy	1,549	754	795	+ 41
14	Netherlands	1,204	610	594	- 16
15	Egypt	1,044	556	488	- 68
16	United States	953	756	197	- 559
17	Sweden	813	386	427	+ 41
18	India	737	331	406	+ 75
19	Belgium and Luxembourg	720	403	317	- 86
20	Cuba	707	377	330	- 47

Source: Hospodarske Noviny, March 1976

THE 1976 CZECHOSLOVAK PLAN

A. SUMMARY:

1. First available reports suggest that selective rather than overall fast growth will be important this year. Energy and raw material supplies will be of major importance with preferential utilisation in the export industries. All available efforts are to be made to increase exports and reduce imports. Major capital projects will be treated as priorities, especially as regards deliveries of building materials and equipment. Growth in Slovakia will be more accelerated than in the Czech Republic. Externally, cooperation with the USSR and COMECON remains the cornerstone of Czechoslovak policy.

B. NATIONAL INCOME/INDUSTRIAL GROWTH:

2. The Czechoslovak National Income is expected to rise by some 5%-5.4% against 6% in 1975 (1974: +5.5%). This drop in NMP growth rate is to be paralleled by an increase in industrial output of 5.5% against 7% in 1975 (1974: 6.6%).

3. Some available growth targets in specific include: chemical industry (+8.4%); machinery (+ 8.3%); building materials (+ 7.7%); food industry (+ 3.8%); iron/steel (+ 3.3%); consumer goods (+ 2.9%); fuel and power (+ 2,5%).

4. The main items on the production programme of the heavy machinery industry are installations for the processing of plastics and synthetic rubber, measuring and automatic control devices and completion of deliveries for capital projects under construction.

C. AGRICULTURE:

5. The strategic intention remains self-sufficiency in grain production although no deadline is given. This can hardly be a short-term aim. The 1976 planned growth rate of agriculture over last year's performance when results were very poor, is to be an averall 4.5%. At best, this means that production will reach average levels, but will still be on the low side.

D. CAPITAL INVESTMENTS:

6. These are scheduled to increase by 6.4% in 1976 - a fairly high rate. In fact, however, the figures are deceptive as funds this year will be spent mainly on projects to be completed up to the end of 1977, with little spent on new projects.

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E. TRADE

7. Exports to socialist countries are to be boosted by 7% and imports by 6.9%. The salient item will be machinery and plant with a scheduled increase of 11.3%. Little information is available on trade with the West, but there appears to be an ambitious planned growth in the machinery and chemical industries.

F. GENERAL ASSESSMENT

8. This year's plan, like those of other COMECON countries, includes no reference to monetary integration inside COMECON or to any new major intra-COMECON projects. Probably in 1976 and indeed during the entire plan period, the keynote will be consolidation at home rather than further involvement in supra-national projects.

TABLE V

CZECHOSLOVAK FOREIGN TRADE BY MAIN
COMMODITY GROUP 1970-1975 (%)

<u>GROUP</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>
<u>EXPORTS</u>						
Finished products	69.1	70.4	71.0	70.2	67.2	68.7
Raw materials/semi- finished products	30.9	29.6	29.0	29.8	32.8	31.3
<u>IMPORTS</u>						
Finished products	51.1	48.9	49.5	52.2	50.6	49.3
Raw materials/semi- finished products	48.9	51.1	50.5	47.8	49.4	50.7

Source: Statisticka Rocenka CSSR 1975
Czechoslovak Foreign Trade, March 1976