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OFFICIALLY-BACKED EXPORT CREDITS GRANTED BY NATO COUNTRIES
TO THE COMMUNIST COUNTRIES IN 1975 AND 1976
AND OTHER FORMS OF EASTERN COUNTRY BORROWING

Note by the Chairman

This document forms part of the continuing Economic Committee studies on credits granted to the Communist countries. The first part, which deals with officially-backed export credits granted by members of the Alliance and which was prepared in accordance with the procedure normally followed by the Committee, was circulated as a separate paper on 20th April, 1978 under reference number ED/EC/78/32. It has been supplemented by a study on other forms of borrowing by Eastern countries.

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OFFICIALLY-BACKED EXPORT CREDITS GRANTED BY NATO COUNTRIES TO THE COMMUNIST COUNTRIES IN 1975 AND 1976 AND A REVIEW OF OTHER FORMS OF EASTERN COUNTRY BORROWING

Note by the Economic Directorate

INTRODUCTION

1. The present document represents a draft updated version of the continuing studies carried out by the Economic Committee (acting on Terms of Reference received from the Council in 1959)(1) on officially-backed export credits granted by NATO countries to the Communist countries. As suggested by the Committee at its meeting of 6th October, 1977(2), the survey covers credits granted in 1975 and 1976.

2. This report has been drawn up in accordance with the procedure adopted by the Economic Committee in 1971(3); however, one delegation was only able to furnish data on outstanding credits and a second was only able to supply incomplete figures for 1976. The figures shown in the document are, therefore, not truly comparable with those given in the last Economic Committee study(4). Further, a major distorting factor arises from fluctuations in the United States dollar exchange rate against the currencies of other members of the Alliance. It should be recalled, in this connection, that the Secretariat receives from delegations six-monthly figures expressed in national currencies which it subsequently converts into dollars at the rates of exchange applicable on 30th June and 31st December of each year(5).

3. The part played by officially-backed Western country export credits in the financing of East-West trade has diminished over the last few years. The Communist countries have, to a large extent, turned to other forms of borrowing, in particular, to financial credits granted by Western European, American and Japanese banks. Accordingly, although officially-backed credits remain an important factor in the development of East-West trade and although their movement remains a satisfactory indicator of the West's commercial policy towards this trade flow, they only provide an incomplete picture of the Communist countries' indebtedness and its possible attendant problems. An attempt has, therefore, been made in the second part of the present study to give some idea of the other constituents of Eastern country debts.

- (1) See C-M(59)75 of 3rd August, 1959 and C-R(59)30 of 5th August, 1959.
- (2) AC/127-R/567, Item IV.
- (3) AC/127-D/331 of 2nd February, 1971.
- (4) The last Economic Committee Study on officially-backed credits granted by NATO countries in 1974, was circulated on 5th May, 1976 under reference number C-M(76)5.
- (5) A methodological note on the use of units of account for statistics on East-West trade and financial relations has already been circulated by the Economic Directorate (ED/EC/75/51 of 11th July, 1975).

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I. OFFICIALLY-BACKED EXPORT CREDITS GRANTED BY NATO COUNTRIES TO THE COMMUNIST COUNTRIES IN 1975 AND 1976

(1) New credits

4. In 1976, officially-backed export credits(1) (commitments) granted by NATO countries (other than the United Kingdom) to the Communist countries totalled \$7 milliard, or \$1.2 milliard more than in the previous year (see Table I).

5. The Soviet Union and Poland were again the main borrowers, the former obtaining \$5.5 milliard and the latter \$1.8 milliard. Together they accounted for three-quarters of total credits granted by Allied countries to the Communist countries as a whole. Of the remaining countries it was the GDR which made the greatest use of this source of finance with credits of \$0.65 milliard.

6. Credits to Poland and the Soviet Union rose steeply in 1976 (\$0.9 milliard and \$0.8 milliard respectively) whereas credits to Bulgaria, Czechoslovakia, Hungary and Romania were down to a notable extent (see Table I). In the case of non-European Communist countries, borrowings by China fell appreciably (\$163 million as compared with \$511 million in 1975), reflecting the fall in Chinese imports from and orders to NATO countries in that year. None the less, and in contrast with its previous practice of not resorting to this type of facility, China obtained \$1.4 milliard in export credits from the Alliance countries between 1974 and 1976. Credits to North Korea dropped sharply to only \$5 million, the probable reason being its difficulty in reimbursing its debts. In contrast, both Cuba and Vietnam showed a renewed interest in export credits, obtaining \$230 million and \$93 million respectively.

7. In the case of guaranteed credits, the Soviet Union, Poland, Bulgaria, the GDR and Cuba borrow principally over extended periods: the relative proportion of transactions covering more than 5 years in the total value of loans granted to those countries by Alliance countries varied between 76% (Bulgaria) and 90% (Cuba) (see Table I). Romania, Czechoslovakia and Hungary, on the other hand, make a greater use of short and medium-term credits (less than 5 years). China, for its part, has always refused to resort to long-term credits and appears to be abiding by this policy.

(ii) Credits outstanding

8. Table II shows outstanding, officially-backed export credits granted by the NATO countries to the different Communist countries. It must be remembered that the figures in question show the indebtedness of the Eastern countries in terms of

(1) Credits of over six months.

committed credits; they are not therefore an indication of outstanding debts, i.e. of the credits actually drawn and not yet repaid, on which the International Staff has no information. The absence of this information has placed a considerable restriction on the scope of the present study.

9. The Soviet Union still has the largest outstanding debit balance vis-à-vis the Alliance countries; its indebtedness which was up 22% in relation to 1975 totalled \$10.2 milliard at the end of 1976, or just over half the total indebtedness of the Communist countries. The structure of Soviet indebtedness in terms of guaranteed credits is none the less extremely favourable since 30% of the credits are for terms of over 5 years (see Table III).

10. Outstanding credits in Eastern Europe totalled \$7.7 milliard at the end of 1976 which is 33% higher than in the previous year; as in the case of the Soviet Union, the proportionate increase in these credits was comparable in 1975 and 1976. Within the area however the situation varies considerably, reflecting differences in the level of payments deficits and in national policies with respect to officially-backed credits as compared with other sources of finance. The volume of credits outstanding in Poland (\$4.5 milliard) and in the GDR (\$1.2 milliard) increased substantially in 1976 and the loan periods (particularly in the case of the GDR), were extended (Tables II and III). Outstanding credits to Bulgaria (\$0.4 milliard) and Czechoslovakia (\$0.5 milliard) rose less steeply and considerably less than in 1975. Romania's indebtedness (\$0.9 milliard) dropped sharply (by 17%) and is at its lowest level since 1972. Credits outstanding to Hungary also dropped (by 13%); Hungary's indebtedness is the lowest of all the Communist countries (except Vietnam), a fact which can be explained mainly by a certain reluctance on the part of the Hungarians to accept credits with strings attached. Another point to be noted is a reduction in the average period of reimbursements by Hungary and Romania, with more than half of their indebtedness now in the form of short and medium-term loans (less than 5 years).

11. Among the non-European Communist countries, the level of indebtedness of China, after climbing steeply in 1974 and 1975, fell back significantly in 1976 to \$0.7 milliard. China's indebtedness is in the form of short and medium-term loans only. The indebtedness of North Korea (\$0.2 milliard) also dropped in 1976 when borrowings were reduced to a trickle. There is a possibility however that the figures in Table II may not give a true picture of the situation since they do not in some

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cases include overdue payments, i.e. total debts outstanding(1). Outstanding credits owed by Cuba almost doubled in 1976 to \$0.55 milliard; the significant volume of long-term credit granted to Cuba that year also led to an extension of the average period of repayment. Vietnam seems to recently have been more open than hitherto to Western imports backed up by credits and its very slight indebtedness increased five-fold in 1976, reaching a total of \$62 million.

(iii) Use of credits (drawings) and debt servicing

12. Officially-backed credits actually released by NATO countries (other than the United Kingdom and Belgium) to the Communist countries rose from \$5 milliard in 1975 to \$4.4 milliard in 1976, making an increase of 47%, a figure far in excess of commitments. The Soviet Union remained the main beneficiary of these credits and its drawings in 1976 (\$2.1 milliard, up 30%) accounted for 48% of the total received by the Communist countries as a whole. In contrast, the volume of credit taken up by Eastern Europe (\$1.8 milliard) rose much more steeply (by 90%); Poland accounted for half of the transactions (0.9 milliard). The year-on-year credits to China (\$0.4 milliard) remained unchanged (see Table IV).

13. It seems likely that most officially-backed export credits granted to Eastern countries are used for the purchase of capital goods. A comparison of the proportion of total drawings made by the different European Communist countries

- (1) The International Staff has little information about North Korea's payments difficulties. This country has been unable, in recent years, to repay some of its short-term credits, in particular and has consequently accumulated a backlog of debts. In the case of officially-backed credits granted by NATO countries, one delegation has reported an overdue payment of \$45 million scheduled for end-1976; total unpaid instalments due to NATO countries as a whole are probably much higher. Furthermore, overdue instalments owed to Japanese firms are believed to have totalled between \$70 and \$100 million at the aforementioned date (Financial Times, 31st December, 1976). An agreement is thought to have been reached on 27th December, 1976 between the Japanese and Korea on the rescheduling of the latter's debts. Another agreement is reported between Korea and 31 European, Canadian and Australian banks for the rescheduling of \$525 million worth of loans (International Herald Tribune, 25th March, 1977). It is now said that Japan received a request from Korea at the start of 1978 for a further rescheduling of repayments.

and of total capital imports by these same countries shows (Table VI) that the Soviet Union finances proportionately more of its capital imports from officially-backed credits, than do the other East European countries(1). Nevertheless, the ratio between Soviet and East European borrowings was much closer in 1976 than in the previous year to the corresponding ratio of imports of this type of goods. Of the East European countries, Poland, Bulgaria and the GDR tend to make greater use than the other countries in the area of guaranteed credit to finance their capital procurement programme.

14. Table V shows that the servicing of the debt (principal plus interest) in 1976, as a proportion of export earnings on Alliance markets, fell in relation to the previous year in the case of all the European Communist countries except Poland, where the percentage remained virtually unchanged, and the GDR where, on the contrary, it rose significantly. Bulgaria and Soviet Union had the highest ratios (16.6% and 16.4% respectively in 1976) whereas Czechoslovakia and Hungary recorded the lowest rates (7.2% and 2.4%). These figures apply only to officially-backed credits which represent only a fraction - varying from one country to the other - of Eastern indebtedness(2). Furthermore, the fact that repayments to the United Kingdom are not taken into account drags down the figures appreciably in certain cases (e.g. Poland).

15. The debt servicing/export ratio of 31.5% recorded for China in 1976 can be explained by the fact that China has contracted short and medium-term loans only, which in turn means heavy annual repayments by comparison with the overall debt. The problems bound up with China's indebtedness must be seen not within the narrow framework of that country's relations with the NATO countries, but in the context of all its hard currency transactions, including those with Japan, its main trading partner, as well as with Hong Kong and Singapore which are a source of substantial earnings. Be that as it may, the Chinese leadership showed in 1976 and 1977 that it was able to put China's foreign trade back on an even keel within a short space of time and to build up substantial reserves in the form, for instance, of deposits in Western banks (see paragraph 27). The ratio of 500% recorded for Vietnam must be treated with care: on the one hand, this is an exceptional figure - since 1977 Vietnam's outstanding debt has been a long-term debt and yearly repayments are much smaller than in 1976; on the other hand, and as in the case of China, Vietnam's relations with the Alliance countries cannot be considered in isolation and account must be taken, in particular, of trade with Japan.

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- (1) The term "capital goods" covers (i) goods produced by the iron and steel industries (SITC 67) to take account of tube sales to the USSR in particular; (ii) goods produced by the electro-mechanical engineering industry (SITC 71 + 72) and (iii) transport equipment (SITC 73).
 - (2) The second part of the present document reviews the other forms of Eastern country indebtedness.

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16. The balance between credits taken up and the servicing of the debt (principal + interest) resulting from earlier borrowing, is a measure of the impact on the balance of payments of the Communist countries of the officially-backed credits granted by the members of the Alliance. Table IV shows that in 1976 the impact was a positive one for all the Eastern countries other than Romania whose repayments exceeded drawings by \$73 million. The influence of net credits has been particularly marked in the case of the USSR, Poland and Bulgaria where they have been used to finance 40% of the trade deficit (FOB-FOB) of each of these three countries (see Tables IV and IX) with the NATO countries.

(iv) Calendar of debt servicing

17. The structure of the debt servicing calendar(1) (see Tables VII and VIII) at 31st December, 1976 was more favourable to the USSR than to Eastern Europe (seen as a whole), with 54% of reimbursements payable within five years in the first case and 72% in the second case. Soviet repayments will increase up to 1979 when they will total \$1,435 million. In Eastern Europe, 71% of the Polish debt should have been paid off within five years, with repayments rising to a maximum of \$645 million in 1978. The GDR is in the best position with only 58% of its debts maturing within five years. Hungary and Czechoslovakia, on the other hand, will have had to pay off the bulk (89%) of their debt within the same period.

(v) Officially-backed export credits granted to the Eastern countries by non-NATO countries of the industrialized West

18. Full and detailed official data on credits granted are only available to the International Staff in respect of Alliance countries. Statistics on outstanding credits of over a year(2) have been prepared for Spain, Finland, Switzerland and Sweden by the OECD Group on Credits and Export Credit Guarantees; the relevant figures are shown in Table X. The OECD has not apparently provided figures for Japan, Austria and Australia. In the case of the first two countries(3) the only source of information in the Chase Manhattan Bank estimates (see Table X). However, a comparison, based on the NATO countries, between outstanding credits, Economic Committee definition, and the Chase Manhattan estimates in a number of cases show very considerable differences which can probably be explained by the different definitions and methods of calculation(4). Consequently, the data in Table X for Japan and Austria should be treated with caution.

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- (1) Principal plus interest.
(2) The Economic Committee carry-over procedure applies to credits of over six months.
(3) No information is available on Australian credits.
(4) The Chase figures apply to "signed contracts backed by official credits" (commitments).

(vi) Export credit policy followed by the Alliance countries

19. In recent years, several Western countries have tried to hammer out uniform conditions for the granting of officially-backed export credits, their purpose being to prevent undercutting which would be prejudicial to their interests. In June 1976, a "gentleman's agreement" was reached in the OECD with a view to harmonizing credit conditions between the Federal Republic of Germany, Canada, the United States, France, Japan, Italy and the United Kingdom(1). Subsequently, on 14th March, 1977, and by decision of the Council of Ministers of the European Communities, the rules contained in the OECD "gentleman's agreement" were extended to all member countries. A Community system was also introduced for the notification to other states and to the Commission of cases where a member country fails to comply with these rules. The lines of credit extended before the "gentleman's agreement" were not however affected.

20. The June 1976 consensus was renewed in February 1978 for an unlimited period, subject to yearly review, by all the OECD countries, except Austria, Iceland, New Zealand and Turkey. No changes have been made in the loan periods and in the interest rates but each country has undertaken to make official request for exemption, with the reasons therefore, whenever the conditions of the agreement seem inapplicable.

II. OTHER FORMS OF COMMUNIST COUNTRY BORROWING

21. Whereas during the Sixties officially-backed export credits formed the major part of loans granted to the Communist countries, this situation has recently changed with the latter (other than China and Vietnam) now resorting extensively to facilities offered by Western banks on private capital markets. Although less substantial than financial credits, unsecured supplier

- (1) The conditions of this agreement are as follows: all countries benefiting from guaranteed export credits must make a down payment of at least 15% of the value of the contract financed by the credit; from the point of view of interest rates and loan periods, the countries fall into three groups: relatively rich countries, relatively poor countries, intermediate countries. In the case of the latter category, which includes the Eastern countries, the rules are: (i) maximum duration of loan: 8 1/2 years; (ii) minimum interest rate for a 2-5 year loan: 7.25%; (iii) minimum rate of interest for a loan of over five years: 7.75%. The agreement does not apply to agricultural produce, aeronautical equipment, nuclear power stations and shipping.

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credits are still fairly significant. Eurobonds are used by some Eastern countries as a form of borrowing but on a very reduced scale. Loans from the World Bank and the IMF represent a not inconsiderable proportion of Romania's debt. There remains an unknown factor, namely the amount of credits reputedly granted to certain Communist countries by Middle East oil exporting states.

(1) Financial credits granted by Western banks

22. Since 1973-1974, Eastern countries have called to a considerable extent on financial credits from Western banks. Two main reasons seem to have motivated this decision: firstly, the need to find funds in addition to those obtained through export credits in order to finance the payment deficit with the West and secondly the desire to be free to make use of the sums borrowed without any strings. Further, the wealth of liquid assets on the international capital market and the excellent reputation enjoyed by the Communist countries as borrowers have prompted Western banks to respond favourably to their applications.

23. The statistics of the Bank for International Settlements are the most reliable guide to Communist country debts to Western banks(1). Table XI, page 26, shows that the net debit position of COMECON European members at the end of last year totalled \$25.2 milliard, i.e. slightly over half their net total indebtedness (equal, according to most estimates, to between \$45 and \$50 milliard). The trend of Eastern country net liabilities to banks ran parallel to that of the region's trade deficit with the West: following an exceptional rise of \$8.6 milliard in 1975, increases noted in 1976 (\$6.1 milliard) and in 1977 (\$3.8 milliard) showed a progressive fall.

24. It should be noted, with specific reference to developments in 1977, that during the first six months, the deterioration (\$5.0 milliard) in the net position of European Communist countries vis-à-vis the banks, was mainly caused by a reduction in the amount of their deposits in the latter, which reached its lowest recorded level since December, 1974

(1) BIS statistics do not, however, include, for instance, Austrian and Finnish banking operations, those of off-shore centres of European banks sending in returns and loans from banks in the Federal Republic of Germany to the GDR. (According to information from a reliable source the net position of Austrian and Finnish banks was apparently \$2.0 milliard at the end of 1977.) Further, there are said to be double accounts with certain officially-backed buyer credits and debts surrendered on the à forfait market. For a detailed study of the BIS statistics, see document AC/127-WF/558.

(Table XI). In contrast, outstanding loans granted by banks only showed a slight increase: \$0.9 milliard as against \$5.3 milliard in the previous six months. (This trend reflects, in particular, a certain reticence shown by the market earlier in the year to grant new credits to COMECON.) On the other hand, during the last quarter of 1977 Eastern countries again borrowed on a large scale (\$2.8 milliard) whilst at the same time replenishing their deposits. The net position of the USSR and Eastern Europe taken as a whole deteriorated, in spite of everything, to the tune of \$1.0 milliard between September and December 1977(1).

25. Table XI also highlights the diversity of the position of each state. Having reached a maximum in June 1977, the net USSR bank debt subsequently showed a marked downward trend; at the end of the year it totalled \$6.3 milliard (including the liabilities of the two COMECON banks)(2). This trend which is not found in the case of any of the Eastern European countries, is particularly noteworthy since it reflects a substantial improvement in 1977 in the Soviet balance of payments in hard currencies(3).

26. Of all the Communist countries (and for this category of credit) it is Poland which is faced with the heaviest indebtedness; net Western bank claims have regularly increased since 1974 and by the end of 1977 amounted to \$6.4 milliard. Of the other Eastern European countries the largest debtor is the GDR with \$5.4 milliard (excluding net claims of banks in the Federal Republic of Germany). Hungary traditionally pursues a financial policy which favours recourse to financial credit rather than to other forms of borrowing. The net position of this country (\$5.3 milliard at the end of 1977) deteriorated

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- (1) The increase in Eastern country claims on and liabilities to Western banks, which are recorded by the BIS in United States dollars, was probably inflated during the last quarter of 1977 as a result of the fall of this currency on the exchange markets.
 - (2) All the figures quoted in this and the following paragraph underestimate the net real bank indebtedness of the Eastern countries since they take no account of the residual of the BIS statistics. This residual (\$1.9 milliard net at the end of 1977) is explained by the fact that the banks of certain countries sending in returns do not supply a detailed breakdown of their claims and liabilities. However, this probably does not modify the trend of the net positions of Eastern countries nor the classification of their indebtedness.
 - (3) According to the United States experts, the Soviet balance of current payments in hard currencies turned from a deficit of \$2.95 milliard in 1976 to a surplus of \$0.33 milliard the following year.

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sharply last year. A similar trend has been noted in the case of Czechoslovakia and Romania both of which had, up to 1976, adopted a fairly reserved attitude to facilities offered by Western banking establishments.

27. China enjoys a comfortable net surplus. Its deposits in Western banks rose at the close of 1977 to \$2.4 milliard (i.e. \$1.0 milliard over the previous year) whereas its gross debts, which have been steadily decreasing since 1974, totalled only \$0.3 milliard. This trend reflects the large trade surpluses produced by the Chinese economy in 1976 and 1977. Cuba's net indebtedness increased substantially in 1975 and 1976 more or less levelling out in 1977 (at the end of the year it amounted to \$1.0 milliard). In contrast, North Korea's debt (\$0.4 milliard) was multiplied by 2.6 last year. As has been pointed out above (see paragraph 11) an unknown quantity remains in the amount of this country's arrears of payments. Lastly, it will be noted that Vietnam, which normally enjoys a surplus position, slipped slightly into the red during the second half of 1977 (\$31 million at 31st December).

28. Special mention should be made of medium-term syndicated credits, which form a substantial constituent of the bank debt. Table XII on page 28 shows that the aggregate loans in this category negotiated by the European member countries of COMECON between 1974 and 1977 totalled \$3 milliard. The International Investment Bank was the largest borrower (with transactions involving \$2.1 milliard between 1974 and 1977) followed by Poland (\$1.5 milliard), the GDR (\$1.2 milliard) and the USSR (\$1 milliard). Romania on the other hand did not resort to this type of credit until quite late in the day (1977) when it raised \$151 million(1).

29. Consortia loans to the East European countries rose sharply until the end of 1976 (Table XII). In the first half of 1977 there was a significant downward trend in this type of business owing to a certain reluctance on the part of bankers to provide further funds for the COMECON as well as increased demand for capital in the OECD economies. In the second half of the year, however, the situation changed again following a revival of confidence in banking circles with regard to the East as well as an increase in available liquidity in the Western money markets.

(1) The figures quoted in this paragraph are taken from the World Bank statistics; they relate to commitments of syndicated credits for periods in excess of one year which have been publicised. They do not therefore cover the total amount of Eurocredits granted to the Eastern countries.

30. Turning to non-European countries, no medium-term consortia loans have ever been raised by China. North Korea has suspended all transactions since the end of 1974. Vietnam on the other hand came on the market in 1977 and obtained a loan of \$74 million. As for Cuba, after raising \$497 million between 1974 and 1976, its borrowings for 1977 did not exceed \$10 million.

31. Statistics published by the International Bank of Settlements give some idea of the calendar of repayments by the Communist countries to Western banks(1). At the end of 1976, half of the sums owing by the European COMECON countries (taken together) was repayable in 1977, 10% in 1978 and 35% in 1979 and beyond(2). From a short-term point of view, Poland was in the best position with half its debts repayable in 1979 and after.

32. In most cases, Eurocredits granted to the Eastern countries had maturities of between 3 and 5 years where these were obtained in 1975 and 1976, and of between 5 and 7 years for transactions in 1977(3).

- (1) Excluding interest.
 (2) In practice, however, part of the debt repayable in 1977 probably represented short-term loans which, more often than not, are renewed as they fall due. This being so, the structure of indebtedness in the Eastern countries is in fact probably more favourable than would appear from the BIS statistics.
 (3) According to the World Bank statistics, the breakdown of Eurocredits granted to Eastern countries by loan period was as follows (in percentages of the total):

	Credits granted in			
	1974	1975	1976	1977 (5 first quarters)
loans of 3 to 5 year inclusive	18	80	62	4
loans of 5 to 7 year inclusive	35	17	37	96
loans of 7 to 10 year inclusive	39	2	-	-
loans of 10 to 15 year inclusive	4	-	-	-
Updated loans	4	1	1	-
Total	100%	100%	100%	100%

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(ii) Unsecured supplier credits

33. Supplier credits play a far from negligible rôle in the financing of East-West trade, particularly in the case of German, Italian, Japanese and Austrian exports. All the Eastern countries, with the notable exception of Hungary, resort to this type of finance. In the absence of sufficient data, the extent of Communist country indebtedness under this head cannot be assessed with any degree of accuracy. None the less, most of the trade bills issued by Communist countries are surrendered by exporters to their banks (and included in principle in the BIS statistics shown in Table XI) or sold on the à forfait market(1).

34. Recent estimates(2) show that outstanding COMECON country liabilities on this market reached the \$4 milliard mark at the end of 1977, 50% of this amount being owed by the USSR, 30% by Poland and 10% by the GDR, the balance relating to Romania and Czechoslovakia. The volume of transactions on this market would seem to be falling.

(iii) International bonds

35. The international bond market as a source of finance has been little used by the Communist countries and even then by only some of them (Hungary, Poland and Romania). The reluctance of borrowers to provide the detailed information required is often put forward by Western banking circles as the reason for this reserved attitude. Table XIV on page 30 shows that between 1975 and 1977 transactions by the Eastern countries came to a combined total of \$562 million (including \$340 million by Hungary \$122 million by Poland and \$122 million by Romania).

(iv) Credits granted to the Communist countries by the OPEC countries

36. The volume of hard currency credits granted to the Eastern countries by the OPEC countries (on the face of it, mainly Iran and, to a lesser degree, Kuwait) cannot be assessed given the absence of the necessary data. None the less,

(1) A forfait financing is a special way of obtaining export finance which has been used extensively since the middle Sixties in trade with Eastern and developing countries. The exporter sells his commercial bills for deliveries of goods or services without recourse. In other words, the forfaiter takes on the ducroire risk as well as the political or monetary risk. As a general rule, only trade bills with maturities of up to five years can be traded on the à forfait market. There is an international and extremely active secondary market for this type of transaction, based in Zurich.

(2) See East-West markets, 3rd April, 1978.

estimates -- though incomplete ones -- have been made by K. Melson and E.M. Snell(1) partly on the basis of data published in the press. According to their calculations, the outstanding debt (i.e. in respect of credits actually drawn by the East European countries) could well have totalled \$680 million at the end of 1975 (including \$480 million for Romania alone). It is possible that this amount may be even greater if certain publicized loans have actually be released(2). As regards the USSR, one loan at least from Iran (repayable in deliveries of Soviet goods) has been mentioned by the UN although no figure has been indicated(3). Lastly, as regards non-European Communist countries, a \$200 million loan is believed to have been granted to Iran by North Korea in 1975(4).

37. In addition financial credits to the Eastern countries are being given by banks in the Middle East. Two recent transactions of this kind are noteworthy: since the beginning of 1973, Middle Eastern banks have been party to a seven-year syndicated loan of \$100 million to the National Bank of Hungary and have also formed a syndicate to loan \$40 million over a two-year period to Poland.

(v) IMF and World Bank loans to Romania

38. Among the Eastern countries, Romania has drawn extensively on the financial facilities allowed by the IMF and the World Bank. Between 1973 and the end of 1977 its drawings from the Fund totalled 357 million SDR (\$434 million)(5) at 30th June. Romania had also borrowed an aggregate total of \$216 million from the World Bank(6).

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- (1) K. Melson and E.M. Snell: "Estimating East European Indebtedness to the West" in "East European Economies post-Helsinki", Joint Economic Committee Congress of the United States.
 - (2) For example, Iran is reported to have made a loan of \$350 million to Poland in 1974 which had not yet been released at the end of 1975.
 - (3) See Economic Survey of Europe in 1976, part II.
 - (4) Source: AC/127-D/525 of 11th February, 1976.
 - (5) December 1977 exchange rate. Source: IMF International Financial Statistics, February 1978.
 - (6) Source: World Bank, 1977 annual report. If the sums approved but not released are not included in this figure, the total becomes \$626 million divided between 13 loans.

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

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TABLE I - NEW OFFICIALLY-BACKED NATO COUNTRY EXPORT CREDITS TO
THE COMMUNIST COUNTRIES (COMMITMENTS)*
(US \$ millions)

Beneficiaries	Years	Total new credits			Credits of over 5 years		
		1974	1975(1)	1976(1)	1974	1975(1)	1976(1)
Soviet Union		2,554.0	2,687.4	3,482.9	1,730.8	2,290.9	2,901.2
Poland		1,256.6(2)	904.6	1,794.0	956.9(2)	655.5	1,468.5
GDR		89.8	513.9	653.6	-	299.5	498.9
Bulgaria		66.4	216.3	144.8	27.7	130.1	129.7
Czechoslovakia		57.6	287.1	133.9	8.4	185.4	65.7
Hungary		33.1	74.0	9.0	-	29.2	-
Rumania		236.7	328.3	195.5	45.9	146.2	53.0
Total Eastern Europe		1,740.2	2,324.2	2,930.8	1,038.9	1,445.9	2,215.8
China		583.8	610.9	162.8	-	-	-
North Korea		190.0	56.2	5.0	-	-	-
Cuba		183.5	80.1	279.8	120.3	28.3	252.7
Vietnam		-	7.2	97.6	-	7.2	56.9
Total Communist countries(3)		5,251.5	5,766.0	6,958.9	2,890.0	3,772.3	5,426.6

- NOTES: (1) excluding credits granted by the United Kingdom
 (2) one delegation having furnished revised data, this figure no longer tallies with the figure in document C-M(76)5
 (3) no delegation has reported credits to Albania or to Mongolia.

(*) Credits of over 6 months

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TABLE II - OUTSTANDING, OFFICIALLY-BACKED, NATO COUNTRY EXPORT CREDITS TO
THE COMMUNIST COUNTRIES (AS AT 31ST DECEMBER)

COUNTRY	1974		1975		1976	
	\$ millions at current prices	% variation over 1973	\$ millions at current prices	% variation over 1974	\$ millions at current prices	% variation over 1975
Soviet Union	6,713.1	+36.0	8,332.6	+24.1	10,179.5	+22.2
Poland	2,266.5(1)	+64.3(1)	2,913.6	+28.5	4,504.2	+54.6
GDR	431.4	-16.6	736.8	+70.8	1,185.2	+60.9
Bulgaria	247.4	-7.8	389.7	+57.5	428.3	+9.9
Czechoslovakia	299.6	-8.0	460.4	+53.7	517.7	+12.4
Hungary	143.6	-4.9	186.5	+29.9	162.8	-12.7
Rumania	1,041.9	-8.1	1,096.9	+5.3	913.9	-16.7
Total Eastern Europe	4,430.3	+17.3	5,783.9	+30.5	7,712.1	+33.3
China	738.7	+63.2	974.5	+31.9	710.3	-27.1
North Korea	323.4	+55.5	294.4	-9.0	234.1	-20.5
Cuba	304.5	+47.0	292.7	-3.9	546.4	+86.7
Vietnam	-	-	10.0	-	62.4	+524.0
Total Communist countries	12,510.1	+30.6	15,688.1	+25.4	19,444.8	+23.9

(1) Revised data.

TABLE III - PROPORTION OF OVER-5 YEAR CREDITS IN
OUTSTANDING OFFICIALLY-BACKED EXPORT CREDITS TO
COMMUNIST COUNTRIES

(in %)

COUNTRY	1974	1975(2)	1976(2)(3)
Soviet Union	70.3	79.9	79.7
Poland	68.4(1)	72.7	75.1
GDR	30.1	51.8	66.1
Bulgaria	70.0	71.6	79.1
Czechoslovakia	41.9	56.2	57.7
Hungary	53.0	45.8	40.6
Rumania	48.4	47.7	35.2
Total Eastern Europe	57.8	62.2	67.3
China	-	-	-
North Korea	1.6	-	1.1
Cuba	46.9	52.2	71.9
Vietnam	-	100.0	95.0
Total Communist countries	59.4	66.7	70.9

- (1) revised figure
- (2) excluding credits granted by the United Kingdom
- (3) excluding credits granted by the United States

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TABLE IV - DRAWINGS(1) FROM OFFICIALLY-BACKED CREDITS GRANTED BY
NATO COUNTRIES AND SERVICE PAYMENTS(2)
BY COMMUNIST COUNTRIES IN RESPECT OF THIS TYPE OF CREDIT
(\$ millions at current prices)

COUNTRY	1975			1976		
	Drawings	Service Payments(3)	Net Credits(4)	Drawings	Service Payments(3)	Net Credits(4)
Soviet Union	1,592.5	842.6	+749.9	2,069.8	1,046.1	+1,023.7
Poland	474.8	268.9	+205.9	918.4	317.3	+601.1
GDR	173.3	170.3	+3.0	335.2	220.5	+114.7
Bulgaria	39.5	52.3	-12.8	203.9	58.5	+145.4
Czechoslovakia	52.5	91.5	-39.0	161.1	82.3	+78.8
Hungary	7.5	22.6	-15.1	33.0	23.9	+9.1
Rumania	193.1	205.0	-11.9	132.9	211.2	-78.3
Total Eastern Europe	940.7	810.6	+130.1	1,784.5	913.7	+870.8
China	380.5	220.4	+160.1	394.5	371.0	+23.5
North Korea	56.7	47.9	+8.8	40.3	37.0	+3.3
Cuba	67.6	51.8	+15.8	103.1	43.1	+60.0
Vietnam	9.8	8.3	+1.5	45.0	40.1	+4.9
Total Communist Countries	3,047.8	1,981.6	+1,066.2	4,437.2	2,451.0	+1,986.2

- (1) excluding drawings from credits granted by the United Kingdom and Belgium
- (2) excluding payments received by the United Kingdom and Belgium
- (3) principal plus interest
- (4) net credits have been defined as the algebraic difference between drawings and debt servicing

TABLE V - SERVICING OF DEBTS(1) INCURRED IN RESPECT OF OFFICIALLY-BACKED EXPORT CREDITS GRANTED BY NATO COUNTRIES(2) AS A PERCENTAGE OF COMMUNIST COUNTRY EXPORTS (FOB) TO ALLIANCE COUNTRIES

COUNTRY	1975	1976
Soviet Union	17.3	16.4
Poland	12.7	12.8
GDR	9.4	10.8
Bulgaria	18.6	16.6
Czechoslovakia	8.6	7.2
Hungary	2.6	2.4
Rumania	17.1	14.3
Total Eastern Europe	11.1	10.8
China	22.3	31.5
North Korea	48.6	53.3
Cuba	22.4	19.4
Vietnam	112.2	500

- (1) Principal + interest
- (2) Excluding payments by Communist countries by way of repayment of credits granted by the United Kingdom

Comment: Eastern country exports have been expressed FOB by applying a multiplying factor of 0.925 to the CIF Western import statistics published by the OECD and the IMF.

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TABLE VI - BREAKDOWN BY EUROPEAN COMMUNIST COUNTRY OF THE
USE OF OFFICIALLY-BACKED EXPORT CREDITS (DRAWINGS) AND
OF CAPITAL IMPORTS FROM NATO COUNTRIES

COUNTRY	1975		1976	
	% of drawings (1)	% of capital imports (2)	% of drawings (1)	% of capital imports (2)
Soviet Union	62.9	49.4	53.7	(52)
Poland	18.7	21.0	23.8	(20)
GDR(3)	6.8	7.2	8.7	(8)
Bulgaria	1.6	5.1	5.3	(4)
Czechoslovakia	2.1	5.3	4.2	(6)
Hungary	0.3	4.2	0.9	(4)
Rumania	7.6	7.8	3.4	(6)
Total Eastern Europe	37.1	50.6	46.3	(48)
Total European Communist countries	100.0	100.0	100.0	100.0

- (1) excluding drawings on credits granted by the United Kingdom and Belgium
- (2) for the present purposes the term "capital equipment" covers goods produced by the iron and steel, electro-mechanical engineering and transport industries
- (3) including intra-German transactions
- () Estimates

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TABLE VII - CALENDAR OF DEBT SERVICE PAYMENTS */
(\$ millions at current prices)

COUNTRY	Repayments scheduled for								
	1977	1978	1979	1980	1981	1982	1983	1984 and beyond	not specified
Soviet Union	1,213.8	1,309.2	1,435.5	1,312.4	1,120.2	1,032.0	626.1	1,096.3	818.3
Poland	579.6	644.8	563.4	497.2	434.4	281.4	197.4	336.8	314.2
GDR	160.4	134.7	118.1	134.1	132.8	123.8	102.8	254.7	0.2
Bulgaria	75.9	77.8	67.8	56.6	45.8	32.1	25.2	42.2	2.0
Czechoslovakia	84.5	90.5	88.8	69.6	53.7	37.2	29.0	24.7	3.6
Hungary	53.9	26.4	20.4	15.7	12.6	4.4	1.7	1.1	9.6
Rumania	236.1	199.5	153.9	99.0	63.0	36.0	10.9	3.7	37.2
Total Eastern Europe	1,190.4	1,173.7	1,012.4	872.2	742.3	514.9	367.0	663.2	366.8
China	270.9	152.8	88.4	76.9	63.5	3.9	1.9	-	-
North Korea	51.5	51.2	46.6	26.5	12.1	6.1	-	-	41.0
Cuba	64.3	62.0	65.6	52.0	46.2	37.0	33.9	88.7	-
Vietnam	6.5	6.8	6.4	5.9	5.6	5.4	5.1	5.4	15.3

*/ Comment: The above figures are not complete since:

- (1) The latest United Kingdom statistics relate to the situation at 31.12.74 and therefore exclude, inter alia, reimbursements due in respect of credits granted to the Eastern countries in 1975 and 1976.
- (2) The latest statistics concerning reimbursements due to the United States relate to the position at 31.12.75

TABLE VIII - CALENDAR OF DEBT SERVICE PAYMENTS(*): PERCENTAGE OF TOTAL REPAYMENTS SCHEDULED EACH YEAR

COUNTRY	Repayments scheduled for									TOTAL REPAYMENTS
	1977	1978	1979	1980	1981	1982	1983	1984 and beyond	not specified	
Soviet Union	12.2	13.1	14.4	13.2	11.2	10.4	6.3	11.0	8.2	100
Poland	15.1	16.7	14.6	12.9	11.3	7.3	5.1	8.7	8.2	100
GDR	13.8	11.6	10.2	11.5	11.4	10.7	8.8	21.9	-	100
Bulgaria	17.8	18.3	15.9	13.3	10.8	7.5	5.9	9.9	0.5	100
Czechoslovakia	17.5	18.8	18.4	14.4	11.1	7.7	6.0	5.1	0.7	100
Hungary	37.0	18.1	14.0	10.8	8.6	3.0	1.2	0.7	6.6	100
Rumania	28.1	23.8	18.3	11.8	7.5	4.3	1.3	0.4	4.4	100
Total Eastern Europe	17.2	17.0	14.7	12.6	10.7	7.5	5.3	9.6	5.3	100
China	41.1	23.2	13.4	11.7	9.6	0.6	0.3	-	-	100
North Korea	21.9	21.8	19.8	11.3	5.1	2.6	-	-	17.4	100
Cuba	14.3	13.8	14.6	11.6	10.3	8.2	7.5	19.7	-	100
Vietnam	10.4	10.9	10.3	9.4	9.0	8.6	8.2	8.6	24.5	100

(*) see notes to Table VII

TABLE IX - TRADE DEFICIT OF THE EUROPEAN COMMUNIST COUNTRIES
AND CHINA VIS-A-VIS THE NATO COUNTRIES

(\$ million FOB-FOB)(1)

COUNTRY	1974	1975	1976
Soviet Union	347.4	3,752.5	2,557.0
Poland	1,499.0	1,865.2	1,479.0
GDR(2)	302.4	396.7	402.0
Bulgaria	353.5	601.4	356.9
Czechoslovakia	292.0	286.9	449.8
Hungary	403.1	428.1	287.4
Rumania	453.3	376.0	92.4
Total Eastern Europe	3,303.0	3,954.3	3,067.5
China	1,350.3	1,230.8	496.9

- (1) The conversion of NATO country imports from Communist countries on an FOB basis has been done by applying a multiplying factor of 0.925 to the CIF figures published by the OECD.
- (2) Including the balance of intra-German transactions.

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TABLE X - OUTSTANDING OFFICIALLY-BACKED, EXPORT CREDITS GRANTED BY THE
NON-COMMUNIST INDUSTRIALIZED COUNTRIES TO THE EAST (COMMITMENTS)

(Situation at end 1976, \$ US millions at current prices)

COUNTRY	USSR	POLAND	GDR	BULGARIA	CZECHOSLOVAKIA	HUNGARY	RUMANIA	EASTERN EUROPE
TOTAL NATO (pro.mem)	10,179.5	4,504.2	1,185.2	428.3	517.7	162.8	913.9	7,712.1
Spain	11.0	76.0	-	-	8.0	-	1.0	85.0
Finland	-	17.0	26.0	-	1.0	-	2.0	46.0
Switzerland	62.0	252.0	56.0	32.0	19.0	-	82.0	441.0
Sweden	237.0	259.0	74.0	39.0	7.0	-	19.0	498.0
Austria	(1)	(760.0)	(300.0)	(25.0)	(200.0)	(10.0)	(45.0)	(1,340.0)
Japan	(1,820.0)	(650.0)	(80.0)	(155.0)	(60.0)	(3.0)	(180.0)	(1,128.0)
TOTAL	(12,309.5)	(6,618.2)	(1,721.2)	(679.3)	(812.7)	(175.8)	(1,242.9)	(11,250.1)

(1) Austrian credits to the USSR are not given separately in the Chase Manhattan study.

TABLE XI: FOREIGN POSITIONS IN NATIONAL AND FOREIGN CURRENCIES OF GROUP OF TEN(1) AND SWISS BANKS AS WELL AS OF THE BRANCHES OF SWISS BANKS IN THE CARIBBEAN AND THE FAR EAST

(millions of dollars)

	December 1974	December 1975	June 1976	December 1976	June 1977	September 1977	December 1977
1. Bank's claims on:							
USSR(2)	3,306	7,597	9,157	10,345	10,030	10,126	10,554
Bulgaria	1,098	1,600	1,786	1,973	2,066	2,107	2,345
Czechoslovakia	275	288	500	866	1,131	1,213	1,259
GDR(3)	1,665	2,575	2,936	3,575	3,787	3,912	4,145
Hungary	1,497	2,194	2,726	3,051	3,121	3,403	4,219
Poland	2,076	3,870	4,372	5,442	6,163	6,198	6,791
Romania	755	880	822	732	907	1,028	1,186
Residual	1,913	2,499	2,849	2,984	2,646	2,073	2,407
Total USSR + Eastern Europe	12,585	21,503	25,148	28,968	29,851	30,060	32,906
China	775	863	489	301	344	247	266
North Korea	134	155	252	390	417	448	480
Cuba	578	840	913	1,007	1,085	1,081	1,278
Vietnam	-	13	39	47	71	83	128
2. Bank's liabilities to:							
USSR(2)	3,232	2,854	2,797	3,724	2,261	2,808	4,222
Bulgaria	253	282	224	355	306	250	445
Czechoslovakia	315	250	271	356	424	499	444
GDR(3)	422	556	569	616	644	636	707
Hungary	468	748	909	899	748	743	872
Poland	407	508	441	643	534	432	384
Romania	135	374	328	295	136	148	195
Residual	675	688	599	695	397	377	455
Total USSR + Eastern Europe	5,907	6,260	6,138	7,583	5,450	5,893	7,724
China	417	1,002	380	1,382	2,452	2,392	2,421
North Korea	23	9	45	222	54	43	44
Cuba	89	152	99	84	215	213	260
Vietnam	72	95	95	121	88	78	97
3. Bank's net positions vis-a-vis:							
USSR(2)	74	4,743	6,360	6,621	7,769	7,318	6,332
Bulgaria	845	1,318	1,562	1,618	1,760	1,857	1,900
Czechoslovakia	-40	38	229	510	707	714	815
GDR(3)	1,243	2,019	2,367	2,959	3,143	3,276	3,438
Hungary	1,029	1,446	1,817	2,152	2,373	2,660	3,347
Poland	1,669	3,362	3,931	4,799	5,629	5,766	6,407
Romania	620	506	494	437	771	880	991
Residual	1,238	1,811	2,250	2,289	2,249	1,696	1,952
Total USSR + Eastern Europe	6,678	15,243	19,010	21,385	24,401	24,167	25,182
China	358	-139	109	-1,081	-2,108	-2,145	-2,155
North Korea	111	146	207	168	363	405	436
Cuba	489	688	814	923	870	868	1,018
Vietnam	-72	-82	-56	-74	-17	5	31

See notes overleaf

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Notes to Table XI

Source: Bank for International Settlements, Quarterly Reports.

- (1) Group of Ten: Federal Republic of Germany, Belgium, Luxembourg, France, Italy, the Netherlands, the United Kingdom, Sweden, Canada, the United States, Japan.
- (2) Including COMECON banks.
- (3) Excluding the position of Federal Republic of Germany banks vis-à-vis the GDR.
- (4) In the case of banks located in Canada, the United States, Japan and Switzerland, transactions cannot always be broken down separately by Eastern countries and are entered on a residual basis.

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**TABLE XII: MEDIUM TERM(1) PUBLICISED SYNDICATED
EUROCREDITS TO THE COMMUNIST COUNTRIES**
(millions of dollars)

	Jan-Dec 1974	Jan-Dec 1975	Jan-June 1976	July-Dec 1976	Jan-Dec 1976	Jan-June 1977	July-Dec 1977	Jan-Dec 1977
USSR	-	750.0	-	282.0	282.0	-	-	-
Poland	507.8	475.0	365.0	103.9	468.9	19.0	-	19.0
GDR	12.0	280.3	195.0	40.0	235.0	300.0	370.0	670.0
Bulgaria	160.0	125.0	140.0	100.0	240.0	20.0	-	20.0(2)
Czechoslovakia	-	60.0	-	200.0	200.0	-	150.0	150.0
Hungary	150.0	250.0	-	300.0	300.0	-	200.0	200.0
Romania	-	6.1	-	-	-	125.0	-	125.0
Total Eastern Europe	829.8	1,196.4	700.0	743.9	1,443.9	464.0	720.0	1,184.0(2)
China	-	-	-	-	-	-	-	-
North Korea	65.3	-	-	-	-	-	-	-
Cuba	119.7	237.0	77.6	62.9	140.5	10.0	-	10.0
Vietnam	-	-	-	-	-	12.5	61.6	74.1
International Bank for Economic Co-operation	100.0	60.0	-	-	-	-	-	-
International Investment Bank	-	420.0	600.0	-	600.0	500.0	600.0	1,100.0
TOTAL:	1,114.8	2,663.4	1,377.6	1,088.8	2,466.4	986.5	1,381.6	2,368.1

Source: World Bank, "Borrowing in International Capital Markets"

- (1) Credits of more than one year.
- (2) Other sources (OECD) also mention a loan of \$100 million raised in July 1977 and another also for \$100 million announced in 1977.

TABLE XIII: SCHEDULE OF COMMUNIST COUNTRY BANK DEBTS(*)
(Position at 31st December, 1976)

	Bank claims(1) on (millions of \$)	Percentage of debts maturing in:			
		1977	1978	1979 and after	unspecified(2)
USSR	9,855	52.7	6.7	35.0	5.7
Bulgaria	1,961	56.6	8.0	30.8	4.7
Czechoslovakia	668	62.2	2.4	31.2	4.1
GDR(3)	3,495	53.9	17.5	23.5	5.1
Hungary	2,912	57.7	7.0	29.5	5.8
Poland	5,615	32.3	13.3	49.9	4.5
Romania	757	74.9	6.7	9.3	9.1
Total USSR + Eastern Europe	25,463	50.2	9.6	34.8	5.3
China	506	60.1	-	27.1	12.8
North Korea	329	29.5	12.5	52.0	6.1
Cuba	1,003	52.6	5.1	21.2	21.0
Vietnam	37	32.4	8.1	59.5	-

(*): Excluding interest payments.

Source: Bank for International Settlements, BALE.

- Notes: (1) These figures do not tally exactly with those given in Table XI since the cover is slightly different: the figures here relate to claims by Group of Ten, Danish and Irish, and offshore branches of United States and European banks. On the other hand, data in respect of the banks of certain countries (particularly the Netherlands, France and Japan) do not represent total claims.
- (2) Including claims by Canadian banks which are not broken down by date due.
- (3) Excluding claims of the Federal Republic of Germany banks.

TABLE XIV: BOND OFFERINGS BY COMMUNIST COUNTRIES

(\$ millions)

	1973-1974	1975	1976	1977	Total 1973-1977
Hungary	40.0	100.5	25.0	174.6	340.1
Poland	-	-	47.0	74.6	121.6
Romania	-	100.0	-	-	100.0
Total Communist Countries	40.0	200.5	72.0	249.2	561.7

Source: World Bank: "Borrowing in International Capital Markets"

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