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Economic Developments in Eastern Europe

Every spring, the Department of Socialist Countries and East-West Economic Relations at the Hamburg Institute for Economic Research (HWWA) submits a summary of the past year's economic developments and of current trends in CMEA countries.¹ The main results are presented here.

USSR

After the hopeful start to the current five-year plan period in 1986, there are a number of important areas in which the Soviet economy was unable to register any substantial progress during 1987. The greater portion of plan objectives was not achieved; the majority of economic indicators showed lower growth rates than in the preceding year. The level of national income produced was 2.3% higher than in 1986 and as such did not fulfil the plan. Reasons cited for this lower growth include the non-achievement of the targets set for the saving of material resources, the growth shortfall in agricultural production, reduced foreign trade earnings and the reduced production of alcoholic liquor. A point which stands out on the positive side is that the aggregate growth in material production was attained for the first time in many years without employing extra labour and solely by increasing labour productivity.

In global terms industrial production developed according to plan, but again structural problems occurred. A disappointing feature were the machine tool and associated industries, for modernization and increased production in this field were intended to serve as the basis for technical renewal in all branches of the economy. In the raw materials sector an important contribution to increased industrial production was made by the fuel-energy complex; the plan targets were achieved and in some cases exceeded. Light industrial production rose only slightly, and there were many individual products for which it did not prove possible to fulfil the production plan. Still 23% of all industrial enterprises violated their delivery contracts.

¹ Klaus Bolz (ed.): Die wirtschaftliche Entwicklung in ausgewählten sozialistischen Ländern Osteuropas zur Jahreswende 1987/88, Verlag Weltarchiv GmbH, Hamburg. The report on the USSR was written by Sybille Reymann, that on the GDR by Peter Plötz, that on Poland by Andreas Polkowski, that on Romania by Petra Pissulla and that on Albania by E. Ullrich Cichy, all from the Hamburg Institute for Economic Research (HWWA). The contribution on Bulgaria was written by Ilse Grosser of the Wiener Institut für internationale Wirtschaftsvergleiche, Vienna. The author of the report on Czechoslovakia was Richard Frönsch, Osteuropa-Institut, Munich. The report on Hungary was contributed by Andreas Wass von Czege, University of Hamburg.

Agricultural production stagnated, achieving a growth of just 0.2%. After the encouraging result of the previous year, therefore, this again represents a setback which is all the more serious in as far as one of the foremost criteria the population will use to judge the success of the reform measures carried out under Gorbachev will be the improved supply of food and groceries. The record 232-million-tonne grain harvest planned for 1987 – a decidedly optimistic target – was not realized. Given that the harvest was slightly above the good result achieved in the previous year, though, the Soviet Union will presumably again in 1987 have had to expend less foreign exchange on grain imports.

The hopes of the population that the standard of living would distinctly improve have not been fulfilled. Although monetary incomes rose more strongly than planned, a corresponding increase in the supply of goods and services was not achieved. Poor quality and a limited choice of articles also contributed to a higher level of unfulfilled demand than in the preceding year.

The volume of foreign trade again fell by 2.2% as a result of further declines in world market prices; in real terms, trade increased by 1%. The USSR concentrated on trade with other socialist countries. Volumes traded with the Western industrial countries again fell, as a result of lower imports. Taking 1987 as a whole, however, the Soviet Union again managed to achieve a surplus in trade with these countries for the first time since 1984. The fact that the export structure is geared one-sidedly to raw materials and fuel will again have shown up as a negative factor in 1987. At the same time, uncertainties on Soviet and Western sides alike deriving from the reform of the Soviet foreign trade system can be presumed to have been an added impediment to reciprocal trade.

Although there has been some recognizable progress overall in what is termed the intensification of the economy – funds earmarked for investment in

modernization were again increased in 1987, for example – the pace of these improvements is unlikely to have matched expectations. Savings on input materials were not implemented to the intended extent and according to the report on the fulfilment of the plan technical innovations were slow in being put into practice. Whether for other enterprises taking goods from a supplier under contract, or for the final consumers, poor quality and insufficient selection remained a constant bugbear.

The targets which have emerged for 1988 are certainly ambitious ones, and achieving these will make substantial demands on the Soviet economy. In view of the major changes being made in the economy and the various transitional difficulties which are bound to occur as a result, one could expect the new goals to be difficult to attain.

German Democratic Republic

The State Central Statistical Administration's report on developments in the GDR's economy in 1987 is positive in every particular. It uncritically announces – as it did in preceding years – “impressive results”, whereby in its own estimation “the stable economic development ... (is attributable) to the reliably functioning and flexible system of the socialist planned economy”.

Even the general economic indicators published in the 1987 annual economic report do not allow this assessment to be shared. On both the production and application sides of the national income accounts essential target quantities were not realized. 1987 brought lower growth in produced national income than any other year in the current decade, with the exception of the crisis year 1982, when the economy was under heavy external pressure. In private consumption and foreign trade the original targets were also undershot, whereas in the population's net monetary income and in aggregate investment expenditure they were exceeded.

The GDR puts its own year-on-year aggregate economic growth at 4% in 1987. If one takes the monthly reports issued during the year and the report on the fulfilment of the plan as a basis – the latter cited a produced national income of something over 261 billion marks – the rate of growth comes out at only 3.6% per annum, which represents a shortfall of 0.9 percentage points against the plan. The growth path originally aimed at for the second half of the 1980's (a 4.6% average annual increase in produced national income) now hardly seems to be regarded as achievable even by the GDR's leadership; it expects growth in 1988 to be flatter than provided for in the five-year plan, although higher than in 1987.

Especially in view of the strained energy situation in the GDR, the extraordinarily cold and long winter with which last year began was bound to leave its mark. It proved impossible to ensure continuous electricity supplies, and in some cases the provision of energy broke down altogether. As a result, production in almost all branches of industry was disrupted by frequent power cuts. Because of the many transport problems which occurred, insufficient input materials were available for continuing production, and costs increased much more quickly than planned. Delays occurred on capital projects putting them well behind schedule; system-induced problems with innovation in the GDR's economy were even more clearly in evidence than before.

A large proportion of the difficulties which came to light last year are also a consequence of the slack in investment during the first half of the 1980's. In order to deal more quickly with its external economic problems and especially to alleviate its indebtedness, the GDR chose the course of austerity in its investment policy.

A positive feature is that the growth achieved was based entirely on productivity gains for the second year in succession; the size of the labour force is now stagnating. By virtue of the GDR's demographic structure, there will be no further increase in the workforce until the end of the current decade. There is a shortage of labour in the service sector in particular. It is not inconceivable that, in order to mitigate the shortage of labour, the GDR will in future make greater use of workers from abroad.

Industrial production last year rose roughly in line with produced national income; the agricultural sector achieved good results both in crops and in animal products.

The plan was also not met on the application side. Investment expenditure rose far more rapidly than planned (target: -2.6%; actual: +4.8%), retail turnover lagged 0.5% behind the planned level while net monetary income rose more rapidly than intended by 0.6 percentage points. Against the will of the economic leadership, purchase and commodity funds drifted apart to a considerable degree, and this for the second year in succession.

For the first time in the GDR's history there was a fall in foreign trade turnover (exports plus imports), with imports falling more markedly than exports. An export surplus was achieved for the sixth year in succession.

In the GDR's own assessment, 1988 represents the key year in the 1986-1990 medium-term plan period.

The growth targets set for 1988 are higher than the results actually achieved in 1987, but lower than the average annual rate for the period of the five-year plan. Only if a powerful growth impetus were created this year could the five-year plan still be made a reality. This, however, is very improbable.

The population is only intended to receive partial benefit from economic growth in 1988. Retail turnover is planned to increase by 4% in nominal terms, whereas produced national income is intended to rise 4.1% in real terms.

The volume of investment expenditure in the economy as a whole is intended to fall slightly, and foreign trade turnover to increase slightly. As has been usual in the past, specific targets for exports and imports have not been published. However, the various rates planned for the production and application sides of the national income accounts show that the GDR aims to achieve an export surplus again in 1988.

Poland

The general mood and the level of dissatisfaction in Poland are far worse than it would appear from studying the economic achievements of the past year. Although performance did not match that of the previous year, the average values for the first two years of the current five-year plan, thanks to the growth achieved in 1986, are in line with the objectives of that plan when agriculture is excluded. Taking industrial and agricultural production together, produced national income increased by only 2% in 1987 (1986: 4.9%) instead of by 3% as planned.

The factors responsible for the low level of morale in the country are the serious problems associated with the policy of restructuring – keeping producers and consumers markets supplied, the burden of subsidies, inflationary trends – which the economic leadership in Poland still has not been able to master.

Although in 1987 expenditure on machinery and equipment in the socialist sector of the economy again grew faster (at 12.1%) than construction expenditure (2.5%), the unfavourable structure of investment is still unchanged. To achieve the desired structural changes Poland ought to concentrate more of its resources on investments which will ensure a more rapid capital recovery. The current five-year plan for capital investment hardly takes any account of this.

As in previous years, the supply bottlenecks had repercussions for production. Despite the growth in the total volume of goods sold, there were many branches in which production fell quite considerably. In the sphere of consumption, these setbacks in production combined

with a pronounced increase in the population's monetary incomes to produce a further widening of the consumer supply gap, which was estimated to have reached 260 billion zloty.

Although the Polish government had promised to combat inflation more effectively in 1987, it did not manage to hold it down to the level of the previous year as intended; the rise in prices was 26%, not including alcohol and tobacco products, which are not considered for index-linking purposes. According to official statements the cost of living as calculated for the index is expected to be up 42 to 44% on last year by the end of 1988.

The government also failed in its attempt to stabilize subsidies at the previous year's level and to draw up a balanced budget for the first time in seven years. In reality 22.5% more than in the previous year had to be paid out of government funds to support the provision of goods and services; as a result the budget was again in deficit, this time by 193 billion zloty (1986: 54 billion zloty).

Despite the fact that export activity picked up noticeably, the country's payment situation, especially its hard currency indebtedness, remained a major source of great tension throughout the economy in 1987. At the end of the year, Poland's convertible-currency debt was \$ 39.2 billion, a sum 5.5 times as high as the country's exports to the West.

The new reform measures were an ever-present element of Poland's economic development in 1987. "More market and less bureaucracy" is the slogan during the second stage of the reforms. As regards their substance, they are largely in accord with the reform proposals put forward by the World Bank experts who subjected the Polish economy to thorough analysis in 1987.

However, the attempt to gain the broad support of the people for the radical reform by staging a national referendum was a failure. In the light of the result of the ballot, the government felt compelled to modify its reform package. The new programme which received the consent of the Sejm in February 1988 sets out to lead the country out of its present crisis during the next 3-4 years. "The times we now face," said the Deputy Prime Minister, Z. Sadowski, "will be difficult times, requiring us all to exert ourselves, to have patience and to act with determination." This is a view shared by large sections of the population, but what they do not share is the official optimism. It is therefore doubtful, given the limited support and widespread apathy among the people, whether the economic reform has any chance at all.

Czechoslovakia

Overall economic growth in Czechoslovakia was slower in 1987 than the previous year; after a 3.4% increase in gross national income produced in 1986, only a 2% increase was registered last year. This means the growth of the Czechoslovakian economy is returning to the values of the first half of the 1980's; the original objectives set by the current five-year plan are becoming increasingly unrealistic. There may be some connection between this and the fact that, as already occurred last year, an annual plan for 1988 has not so far been published.

Persisting imbalances in the economy's productive sector are evidenced by a further increase in warehouse stocks, by the large proportion of enterprises unable to fulfil their production plans (27.6% in industry) and by the associated liquidity problems suffered by many enterprises.

It proved possible to increase investment activity in 1987 by 3.7% compared with the previous year. Only very incomplete data are as yet available on the sectoral distribution of investment. Machinery and equipment are taking up a greater share in the overall total, though this is increasing less quickly than planned. A significant part can be presumed to have been played in this by distinctly higher imports of capital equipment from Western countries. Nevertheless, there was no noticeable improvement in Czechoslovakian state enterprises' willingness to innovate, and the total number of newly introduced products actually declined.

Although industry increased gross production by a greater amount than planned, at 2.3%, this is chiefly attributable, with the exception of the electrical equipment industry, to increased production in areas where the level of processing is low. There was therefore only partial success in reducing the economy's extraordinarily high energy and material inputs.

In quantitative terms, agriculture produced a satisfactory result on the whole with a 0.9% increase in gross production. However, a closer look shows both that quality was at times inadequate and that substantial quantitative shortfalls occurred in certain areas, particularly fruits and potatoes.

Both the population's real incomes and their savings ratio rose distinctly during the past year; the two figures taken together suggest that the overhang of consumer purchasing power, with goods available of unsatisfactory quality, is more pronounced than can be expressed by the officially stated inflation rate of 0.1%.

Declining import prices, especially for energy sources, produced an improvement in Czechoslovakia's terms of trade last year. The improvement affected trade both with other CMEA countries and with non-socialist countries. At the same time, but to a lesser extent, the country received lower prices for its exports, at least to non-socialist countries. This once again shows its tremendous dependency on developments in the world market. Correspondingly, Czechoslovakia was able to reduce its gigantic deficit with the other CMEA countries, especially the Soviet Union; at the same time, though, it had to tolerate a deficit with the non-socialist countries for the first time in the 1980's. The chief reason for the latter was that exports to developing countries with weak liquidity positions were restricted at the same time as capital goods imports from Western industrial countries were increased. Evidently Czechoslovakian foreign trade is undergoing a reorientation at present: against the background of a declining deficit burden in trade within the CMEA, the country is seeking to deploy its resources for the modernization of its own industrial base in preference to acquiring dubious assets in the Third World.

In the wake of the reforms in the USSR, albeit with a demonstrable delay, Czechoslovakia too has announced a "rebuilding" programme (*přestavba*) which, however, has so far been confined to the economic system. Because the political leadership faces a noticeable ideological dilemma between denouncing the "Prague Spring" whilst taking current developments in the Soviet Union as an example, it is quite possible that the deciding factor will be the pressure for economic adjustment. So far, however, the government has been hesitant to legislate any fundamental reforms, especially a rewording of the law governing enterprises. Nevertheless, the "time-table" of economic reforms recently issued to the public suggests that what up to now has been a purely verbal reform stance may now begin to take on more concrete form.

Hungary

Compared to the preceding two years, Hungary's economy was on a gentle upward trend in 1987: gross domestic product at constant prices rose almost 3% to reach a value of 1,200 billion forint. The source of this growth was not agriculture, which did not match the previous year's performance due to particularly bad weather conditions in 1987, but the industrial sector. Industrial production increased by 3.7% and hence more rapidly than the previous year, while the construction sector was also able to record growth of more than 2% at constant prices.

Instead of contributing to the desired increase in exports, however, the livelier economic growth showed through in an unplanned increase of approximately 2% in domestic expenditure. It proved impossible to inhibit the growth in domestic demand either for consumer or capital goods, thus jeopardizing the restoration of balance of payments equilibrium which had again been declared a priority objective in 1987, and this despite the fact that measures to absorb purchasing power come into effect at the beginning of the year. Consumption was up by almost 3% in real terms instead of declining by 1 to 2%, and investment rose by 12% in nominal terms or 6% in real terms to reach 291 billion forint, of which 235 billion forint – or 15 billion forint more than planned – took place in the socialist sector. Socialist enterprises alone, which had more of their own funds available in 1987, managed to raise their investment expenditure by 18 billion to reach 141 billion forint (a 14% increase), but local government authorities also exceeded the previous year's investment level by 4 billion forint: local councils had more funds available both because of increased income from local authority levies on enterprises and because they were able to issue communal bonds to the population at large.

The structure of income and expenditure in the state budget in 1987 also did little to assist any overall economic stabilization. It was possible, on the one hand, to reduce the budget deficit by 10 billion forint when set against the previous year to just under 35 billion forint, not least because net receipts from enterprises exceeded the planned target by 10.7 billion forint as a result of price and exchange-rate adjustments made during the year. On the other hand, the budget as a whole still had a stimulatory effect on domestic demand, especially as the numerous subsidies to local authorities, enterprises and households were not reduced to the necessary extent.

Investment expenditure by the state was approximately 2 billion forint in excess of the plan's target, primarily because enterprises made greater use of the investment grants to which they are entitled, and households greater use of government building grants, than had been expected; another reason was that the costs of setting up a new system of tax collection and surveillance had been underestimated when originally budgeted.

An additional burden on the state budget in 1987 were increased interest payments and debt-service obligations on the country's loans; these were 3.5 billion forint above the expectations in the plan, and almost 7 billion forint above the payments actually made in 1986.

The demand pull from enterprises, consumers and governmental bodies alike meant that domestic consumption again exceeded the supply of goods and services from within the Hungarian economy in 1987. Nevertheless, imports exceeded exports by just 6 billion forint in comparison with 1986's overhang of more than 15 billion forint.

It is intended to continue slowing down the build-up of foreign debt in 1988: by virtue of a 1 to 1.5% increase in gross domestic product but especially also of a reduction in domestic consumption by 1.5 to 2%, this year's current account convertible currency deficit is targeted to be around \$ 5 billion. To achieve this, though, the convertible currency trade balance will need to show a surplus of over \$ 250 million, and this in turn is only attainable – given the 1987 deficit of \$ 361 million – by a pronounced improvement in export performance while at the same time continuing with what already is a very restrictive import policy. Hungary's economic policy-makers are relying chiefly on being able to implement technical progress in the economy more quickly and on an efficiency-oriented reallocation of the means of production as part of a more selective policy on subsidies and credit, together with the stricter application of the bankruptcy laws when enterprises fail to maintain solvency.

Romania

Romania's national income was 4.8% higher in real terms in 1987 than in 1986. Hence even though this came nowhere near meeting either the previous year's performance (7.3%) or the annual plan's target (8-9%), the growth achieved was nonetheless extraordinarily high whether compared with other CMEA countries or with Western industrial countries.

The industrial production of goods in Romania increased by 4.5% overall, and net production was up 5.6%, making it the first time since 1984 that net production had shown the faster growth; for the first time since then, therefore, progress has again been made towards the objective of saving on materials in the production process which has always been pursued with the greatest seriousness. However, all major industrial sectors failed to fulfil the economic plans last year. Mr. Ceausescu was critical of significant shortfalls relative to the plan, particularly in the fields of metallurgy, the chemical industry and a whole group of industries in the mechanical engineering sector. Yet another problem was created by delays in the going into operation of new industrial plant because of the poor supply of

construction materials to the sites, which led to substantial losses of production.

Ceausescu's austerity policy, now in its seventh year, again demanded a great deal of sacrifice from the Romanian people in 1987. Supply bottlenecks for food and groceries were still more severe – this even though gross agricultural production again increased 2.3 % last year after 1986's record harvest – and the supply of energy to private households is by now rationed to the extent that only about 10 % of true demand is being met. However the Romanians are putting up increasing resistance to their straitened supply situation and to Ceausescu's economic policies. In November the most violent clashes to date occurred between ordinary citizens and the militia in Brasov, and these culminated in the death of two police officers.

Where the picture was a happier one than in the previous two years was in foreign trade – at least when viewed on an overall basis. After two years of declining real exports these were higher again by 8.7 % in 1987 whereas imports remained stable at the previous year's levels. Even so, the plan fulfilment report shows that exports especially were below target; a better result, says the report, was prevented by frequent failure to deliver export production on time and by technical faults or inferior quality. These criticisms may apply especially to convertible currency exports; as an example, the OECD countries' imports from Romania in the first 8 months of 1987 were down 17 % (expressed in deutsche marks) compared with the corresponding period in 1986. In its total convertible currency trade, Romania ran a surplus of \$ 2.8 million last year. This surplus meant that it was again possible for the country to pursue its uncompromising debt repayment policy. By the end of 1987, Romania's gross indebtedness in the West was down to only about \$ 6 billion.

Bulgaria

In 1987, national income produced is reported to have increased by 5.1 %, which is slightly less than in 1986 (5.3 %) and about the rate planned for 1987 (5.2 %). In view of the sectoral and foreign trade results and repeated concern about lagging economic performance throughout the year, the 5.1 % increase seems rather overstated.

The growth of industrial production accelerated to 4.4 % (1986: 3.9 %), supported by an increasing number of working shifts in enterprises.² The plan fulfilment report implies reductions in the specific consumption of materials and improvements in the

assortment of production. The fastest growing branch, as usual, was electronics (16 %), while heavy machinery (8.6 %) ranked second. In energy production, there are at last signs of incipient stabilization: coal extraction reached a peak level of 36.8 million tons net (+ 4.5 %), electricity generation increased by 3.9 %. Yet, the 43.5 billion kWh produced were still below the satisfactory 1984 level. In late 1987, with a considerable delay, the first 1000 MW nuclear reactor came onstream, adding about 10 % to the country's electricity generation capacity. Production in the so-called "chemical industry and biotechnologies" production complex (including appurtenant machinery and equipment), also considered a priority branch, increased by only 1.3 %; it was affected by two major industrial accidents (one in 1986 and one in 1987). The near-stagnation (+ 0.6 %) of production sold in food, beverages and tobacco is related to the poor agricultural results.

Agricultural production, having recovered only in 1986 (+ 11.7 %), decreased by 3.8 % in 1987, partly due to continuing drought. Crop production decreased by 7.4 % (1986: + 22.6 %), the grain harvest is estimated at only 6 million tons (– 30 %), required grain imports are likely to amount to 2 to 2.5 million tons. Production shortfalls are reported for food grain and corn, but also for sugar beet, potatoes, soya and fruits. Animal production was down by an estimated 0.7 % (1986: + 3.7 %). Due to the deteriorating fodder basis, production of meat declined by 1.6 %, production of milk (+ 0.3 %) and of eggs (– 0.3 %) practically stagnated. The decline in animal holdings could not be stopped – it was most pronounced for sheep (– 7.1 %), only poultry increasing by 4.3 %.

At the price of a drastic deterioration of the balance of trade, national income distributed had increased much faster (8.4 %) than national income produced in 1986, the main beneficiary of the increase being accumulation (23.8 %). In 1987, the reverse seems to have been the case. Gross fixed investment at current prices increased by only 4.5 % in the first nine months of 1987 (1986 total: + 7.8 %). Private consumption had increased by a relatively modest 2.9 % in 1986. In 1987, the growth of per-capita real income accelerated to 3.7 % (1986: 2.8 %). On the other hand, growth of average nominal wages and salaries decelerated to 3.5 % (1986: 5.2 %). Despite an increase in retail trade turnover (excluding spirits) at current prices by 5.5 %, even some basic foodstuffs were in short supply, due to agricultural problems.

As regards foreign trade, exports rose by 3.5 %, while imports were cut by 2.7 %, both at current prices. The overall deficit in the balance of trade, which had trebled in 1986, could be reduced to 150 million foreign-

² 1986: gross production; 1987: production sold.

exchange Leva. In trade with the socialist countries, a surplus had been achieved in 1986 for the first time since 1973. Its 1987 increase to 161 million foreign-exchange Leva resulted mainly from trade with the Soviet Union, where Bulgarian terms of trade have started to improve. Trade with the non-socialist countries showed a deficit for the third year running, but it was cut substantially in 1987 thanks to trade with developing countries. Exports rose by 21.8% in US-\$ terms, making up for the bulk of last year's shortfall. Most striking is the decline in imports by 36.8%, and by a full 60% from the Arab countries. This indicates that oil imports from the OPEC countries were sharply reduced. Exports to the industrialized West in nominal US-\$ terms increased by 9.8% in 1987, the first increase since 1980. The 3.7% increase of imports was very modest as compared with the two preceding years. This deficit in the balance of trade with the industrialized West amounted to an equivalent of \$ 1.354 billion, down by only \$ 10 million from the record 1986 level. According to our latest estimates, the deficit in the balance on current account in convertible currencies plus the dollar depreciation effect resulted in an increase of the net debt from \$ 3.3 billion to \$ 4.7 billion.

The plan for 1988 sets rather ambitious targets: national income produced is to increase by 6.1%, industrial production by 5% and agricultural production by at least 5.5%. Real incomes of the population are to grow by a slightly decelerated 3.3%, investment is planned to amount to 10.5 billion Leva, i.e. the annual average of the current five-year plan. As regards foreign economic relations, continuing terms of trade improvements vis-à-vis the Soviet Union will provide a certain relaxation for the domestic economy, whereas the need to stabilize the hard currency position will be a continuing burden. Domestically, apart from a better supply of electricity the so-called extensive factors of growth seem to be closer than ever to exhaustion. Much hope is therefore placed on a new package of economic reforms that came into force at the beginning of 1988. As compared with the very hesitant reform attempts of the first half of the 1980's, the new approach is characterized by more pronounced elements of market-orientation.

Albania

Especially in comparison with the other Eastern European socialist countries, Albania continues to lag considerably behind in its development. Being a developing country, the prime task Albania has set itself is to achieve a lasting improvement in productivity both in agriculture and in industry. In accordance with this, the

current (eighth) five-year plan for the period 1986-1990 proposes a 34-36% increase in agricultural production and a 29-31% rise in industrial output, and these ambitious aims were manifested in similarly high performance targets in the 1987 annual plan. According to official statements, the essential main aims in economic and societal development were achieved in 1987, but one has to take a doubtful view of such an unequivocal account. Among the reasons for this are the following:

□ Albania has been suffering difficulties for a number of years in maintaining the level of industrial productivity already reached, and this also applies to the two chief export commodities, namely oil and chromium. Apart from the inefficiency of the centralized system of control, the cause of falling productivity rates is the inadequate technological standard of production plant. However, imports of technology from the West are only possible to a restricted extent at present. The country's constitution prohibits any borrowing from the West, and this means that all imports have to be "earned" by an equivalent amount of exports. However, it is very difficult to earn satisfactory revenues from trade if, on the one hand, the quantity which can be sold is on the decline and, on the other, the world market dictates low prices for the chief export commodities.

□ The hard winter of 1986/87 was followed by a particularly long dry period in the summer which had an adverse effect not only on agriculture but also on the production of energy (about 85% of the country's electricity is generated in hydro-electric plants) and consequently on manufacturing industry.

High planned rates of growth in 1988 suggest that a large amount of ground needs to be made up. While agricultural production is required to grow by 7.2%, only just above the 7% average for the current five-year plan, far higher rates of growth are expected in individual industries (e.g. oil and gas extraction – 18%; chromium ore extraction – 12%; chemical industry – 13%; small industrial products and small consumer goods – 56%).

Yet one is bound to doubt whether high rates of growth can be achieved in Albania in the long run unless there is a change in the economic system or the country can open up more to the world economy. The Albanian government appears to have recognized this problem. First of all, it has instituted decentralization measures – as part of an "experiment" to begin with – to the effect that individual enterprises have now been given responsibility for drawing up production plans and distributing income within the enterprise. Secondly, it is also taking tentative steps towards opening the economy to a greater level of foreign trade.