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## Special Analysis

**EASTERN EUROPE:** **Growth Still Slow**

***East European GNP grew about 1.6 percent in real terms last year and probably will grow only slightly more this year. Major improvements in economic performance would require economic reforms and austerity policies that would risk social instability.*** [redacted] 6.2(d)

Economic growth in the region has improved from the 1987 rate of 0.1 percent. Poland probably recorded the best GNP growth at 2.1 percent; GNP growth in Yugoslavia at 0.1 percent was the lowest. Overall industrial production increased only marginally, and farm output fell for the second year by about 1 percent. Most of the growth came from other sectors—trade, transportation, and services. [redacted] 6.2(d)

The **Yugoslav** economy was whipsawed by drought, labor unrest, and 250-percent inflation. **East Germany** grew at the same slow rate as in 1987, in large part the result of a sharp drop in agricultural output; in **Hungary** growth was at a virtual standstill because of an austerity program intended to slow the increase in foreign debt. **Romanian** growth was probably above 1987 levels, but official statistics are increasingly scant; **Polish** growth also rose, but a poor harvest somewhat offset industrial gains. Improved growth in **Czechoslovakia** was because of increased agricultural output; **Bulgarian** growth was probably led by improvements in the transport, trade, and housing sectors [redacted] 6.2(d)

Standards of living throughout the region have suffered. In Hungary consumption apparently declined 3 percent as consumers were squeezed by 16-percent inflation and new income taxes, while Yugoslavs fared even worse with raging inflation and 14-percent unemployment. Romania's already abysmal living standards fell further as a result of the drive to repay hard currency debt, and shortages of consumer goods again plagued Poland and Bulgaria. Even relatively affluent East Germany and Czechoslovakia admitted increased shortages of some consumer goods and restricted tourist-shoppers from neighboring East European countries [redacted] 6.2(d)

Most East European regimes hope reforms will improve economic performance this year, but even the most reformist governments face several years of painful adjustment. Hungary and Yugoslavia have promised systemic changes in return for IMF assistance, while Poland hopes to receive an IMF program by yearend. Bulgaria and Czechoslovakia will do little more than tinker with their centrally planned systems; East Germany and Romania continue to cling to strong central control. Growing consumer dissatisfaction will cause some East European countries to retreat from even modest reforms and austerity programs. Most will bend to severe pressure to increase consumer goods imports. Only Romania probably will continue to ignore consumer demands. [redacted] 6.2(d)

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