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### ROUTING AND RECORD SHEET

SUBJECT: (Optional)

Soviet Acknowledgment of Budget Deficit

FROM:

Douglas J. MacEachin  
D/SOVA

EXTENSION

NO.

ER 88-4072X

DATE

TO: (Officer designation, room number, and building)

DATE

OFFICER'S INITIALS

COMMENTS (Number each comment to show from whom to whom. Draw a line across column after each comment.)

	DATE		OFFICER'S INITIALS
	RECEIVED	FORWARDED	
1. Executive Registry	02 NOV 1988		
2.			
3. DDCI	DMC		
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5. DDI (SOVA)			
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(b) (3)

APPROVED FOR RELEASE  
DATE: AUG 2007

*Doug - Where do we stand on the underclass/mittelschlag paper on Sov economy? Also, send me copy of paper cited in Hudson's (11-2-88) NYT.*



DDI  
EXEC  
REG

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C-112-1E

23 OCT 1988

MEMORANDUM FOR: Deputy Director of Central Intelligence

FROM: Douglas J. MacEachin  
Director of Soviet Analysis

SUBJECT: Soviet Acknowledgment of Budget Deficit

1. Action: None, for your information only.
2. Background: New York Times carries a front page story (see attachment A) on the Soviet budget deficit. The Times notes Finance Minister Gostev's disclosure on Thursday that the 1989 state budget deficit will equal 36.3 billion rubles, caused in large part by "big subsidies," falling oil prices, the Chernobyl' clean-up, and the anti-alcohol program. The article reports Gostev said that the budget had been in deficit many years. The article fails to note that he also said the imbalance has been aggravated sharply, since 1985.
3. As you may be aware, SOVA identified deficits as a major problem well before any Soviet--or for that matter Western--acknowledgment. Our estimates were published in June of this year, followed by--at the request of the DDO--an unclassified version in September (see attachment B). We estimated in June that the 1988 deficit was 68 billion rubles. (A September Soviet newspaper article implied a range of 65 to 75 billion rubles for the same year.) Unlike Gostev, SOVA squarely blames Gorbachev's program--including the massive increase in investment spending--for a major portion of the deficit run-up.
4. Comment: Soviets are likely to have to live with a sizable deficit for at least several years, fueling rising inflation and burgeoning rationing programs. The 1989 state budget calls for spending to rise by 11 percent or some 50 billion rubles--with much of the increase going to consumer purposes. Since revenues are to grow slowly we frankly do not understand the 36.9 billion estimate cited by Gostev. We currently estimate that the 1989 deficit will considerably exceed the 1988 level of 68 billion rubles.

5. Gostev also is vague on solutions for cutting the deficit, citing only reduction of state subsidies and permission for enterprises to sell bonds to replace state grants as a source of investment capital. Neither initiative is likely to make much of a dent over the next year. Subsidies are enormous--90 billion rubles in 1988. They mostly support production of key consumer goods like meat and milk, and so will be phased out gradually at best. The bonds program, [redacted] is still experimental. [redacted]

[redacted]  
Douglas J. MacEachin

**Attachments:**

- A. New York Times article
- B. SOVA paper USSR: Sharply Higher Budget Deficits Threaten Perestroyka

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