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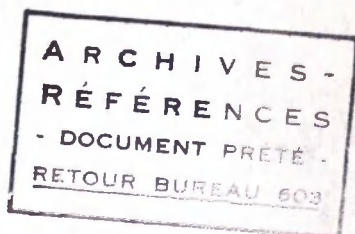
YUGOSLAVIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

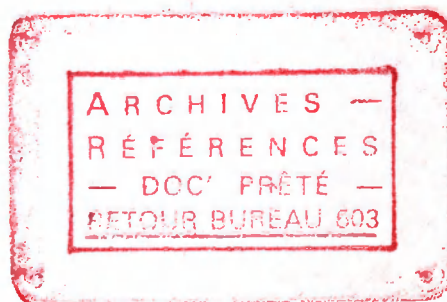
DECEMBER 1984



OECD ECONOMIC SURVEYS



YUGOSLAVIA



DECEMBER 1984

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development; and
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.

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BASIC STATISTICS OF YUGOSLAVIA

THE LAND AND THE PEOPLE

Total area (1 000 sq. km)	256	Net increase in population, 1971-1983 (1 000), annual average	190
Agricultural area (1 000 sq. km) 1982	143.0	Total paid employment (1983, 1 000)	6 223
Forest area (1 000 sq. km) 1982	92.8	of which:	
Population (30.06.1983, 1 000)	22 800	Industry	2 374
Republics:		Building	599
Serbia	9 464	Agriculture (social sector)	218
Croatia	4 632	Active population in private agriculture (1982, 1 000)	2 292
Bosnia and Herzegovina	4 223		
Macedonia	1 967		
Slovenia	1 914		
Montenegro	600		
Major cities (1981, 1 000):			
Belgrade	1 470		
Zagreb	856		
Skoplje	505		
Sarajevo	449		
Ljubljana	305		

PRODUCTION

Gross national product at factor cost (1982, billion dinars)	3 034.6	Origin of GDP in 1982 (per cent of GDP):	
Gross domestic product per head (1982, US \$)	2 698	Agriculture, forestry and fishing	15.0
Gross fixed capital formation: 1982 (billion dinars)	854.8	Mining and manufacturing	37.1
1982 (per cent of GNP)	25.9	Building	9.4
		Other	38.5

GOVERNMENT

Government consumption (1982, per cent of GDP)	15.8	General government revenue, including social security (1982, per cent of GDP)	31.4
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FOREIGN TRADE

	Structure of exports in 1983 (per cent)	Structure of imports in 1983 (per cent)
Food, drinks, tobacco	11.6	4.9
Raw materials and semi-finished goods	40.7	68.4
Finished manufactures	47.7	26.7

THE CURRENCY

Monetary unit: Dinar	Currency units per US \$, average of daily figures:	
	Year 1983	96.1
	June 1984	143.2

Note: An international comparison of certain basic statistics is given in an annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Yugoslavia by the Economic and Development Review Committee on 6th November 1984.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 6th December 1984.

INTRODUCTION

Further progress has been made over the last two years in laying the ground for improved economic performance over the medium-term. Policies have remained restrictive in 1984, with notably a marked decline in the volume of public expenditure including a further sharp fall in real wages paid by the public sector. Successive adjustments have been made in nominal interest rates since the end of 1983, with a view to achieving real positive rates by April 1985. Administrative measures and political leverage have been employed to prevent excessive deviations from the targets set in the Economic Resolution for 1984. Moreover, institutional and structural policy changes are currently in the process of being implemented. More are contemplated for 1985, in accordance with the Long-Term Stabilization Programme.

Despite the continued squeeze of domestic demand, Social Product is estimated to grow by around 2 per cent in 1984 following near stagnation in the previous three years. The downward trend in productivity has been halted, and the increase in unemployment has slowed down, but at about 10 per cent of the non-agricultural labour force joblessness remains a major problem. The most favourable development is the resumption of export volume growth to the convertible currency area, reflecting the upturn in OECD demand, improved price competitiveness since mid-1982 and shifts in the pattern of demand and production. This has helped to consolidate last year's substantial improvement in the trade balance, allowing an easing of import restraint. As a result, the current account surplus in convertible currencies is estimated to reach an all-time high of about \$850 million in 1984. Despite a cumulative decline in real average earnings of almost 30 per cent in the four years to 1984 and the large margin of economic slack, the underlying rate of inflation has remained broadly stable since mid-1983 hovering around 55 per cent. The amelioration of underlying domestic trends and of the balance of payments situation is forecast to continue in 1985. The decline in real net average earnings may therefore come to an end, but inflation is expected to remain a serious problem.

Part I of this Survey deals with the short-term stabilization policies pursued in the three years to 1983. After briefly recalling the background to the reorientation of policies it discusses the results achieved in the fields of income distribution, resource allocation, inflation and external developments. Part II describes the policy measures introduced since the end of 1983, reviews economic trends in 1984 and assesses the outlook for 1985. Within the framework of the authorities' medium and long-term policy objectives, Part III tries to identify some of the conditions for resumption of sustained non-inflationary growth. It mainly deals with structural issues related to efficiency and internal competition, income distribution, resource allocation, financing problems and the foreign exchange management system. Finally Part IV concludes the Survey with some policy considerations.

I. STABILIZATION POLICIES AND ECONOMIC PERFORMANCE, 1980-1983

Policy re-orientation in the wake of growing disequilibria

Unbalanced growth and rising distortions during the second half of the 1970s¹, coupled with the effects of the second oil shock brought growth practically to a halt in the early 1980s. It also exacerbated inflationary pressures and seriously aggravated external imbalances. The annual growth rate of the Social Product(SP) fell to about ¼ per cent in the three years to 1983, compared with 6 per cent from 1973 to 1980. Inflation rose from about 20 per cent in mid-1979 to some 45 per cent in mid-1981. The current external deficit widened sharply to an annual rate of \$3 billion in the 1979-80 period (4 per cent of GNP on average), compared with around \$1 billion in the previous five years. The rise in the oil bill accounted for just over two-thirds of this increase, the rest being explained by the emergence of underlying disequilibria and to a lesser extent the relative cyclical position of Yugoslavia vis-à-vis its trading partners. As a result, the external debt almost doubled between 1978 and 1981, reaching just over \$20 billion (a little more than one-fourth of GNP). In light of these developments and given the stringency in international financial markets, the ambitious objectives of the 1981-85 Medium-term Plan were revised downward and policies were shifted to a restrictive stance towards the end of 1980. The main aim was to improve the balance of payments position and to stop the rise in the external debt. Since then, policies have been

Table 1. Medium-term trends
Annual percentage change

	1980	1983
	1973	1980
Social product ¹	6	¼
<i>of which:</i>		
Private consumption	5¼	-½
Public consumption ²	6½	-
Fixed investment	6¾	-8¾
Exports of goods and services	3½	-½
Imports of goods and services	4	-10¾
Industrial output ³	7¼	1¾
Productivity, total (excluding agriculture)	2	-2½
<i>of which:</i> In industry	3¾	-1
Employment, total	¾	n.a.
<i>of which:</i> Social sector	4½	2½
Net average earnings:		
Nominal	21¼	28¼
Real	1½	-6½
Cost of living, total	19¾	37½
<i>of which:</i> Food	19¾	41
Services	18	25¾

1. Yugoslav national accounting concepts 1972 prices.

2. The exact title is "general and collective consumption" and it broadly corresponds to general government consumption on a SNA basis less the wage and salary bill paid to government employees.

3. Value added in industry.

Sources: *Statistical Yearbook; Indeks*, Federal Bureau of Statistics, and direct communication to the OECD.

steadily tightened as the outcome often diverged from the annual targets, partly due to the following factors: the impact on the Yugoslav economy of the world recession was under-estimated; the seriousness of some of the problems was not always well perceived; not enough attention was paid to some of the side-effects of the policies pursued.

Managing the economy under conditions of large macro-economic imbalances and structural disequilibria and in an unfavourable international financial and foreign trade climate was an extremely difficult task. The situation was further complicated by the consequences of the 1974 constitutional reform which further reduced the power and responsibilities of the Federal authorities. (For more details see Part III). Furthermore, some of the institutional changes made in the late 1970s and the 1980s in the wake of the new constitution were quite novel and their implementation proved more difficult than originally thought. Under normal circumstances some of these arrangements might not have had such negative effects, but in a climate of crisis they failed to produce the desired results, notably as far as combatting inflation and promoting exports were concerned. Given the urgency of the problems, especially on the external side, administrative measures were also often introduced. These, combined with the diverging interests and goals of republican, regional and local institutions and pressure groups further weakened the operation of market forces at the national level, thus increasing the cost of the necessary adjustments.

Aware that the problems facing the country needed radical solutions, sometimes involving important changes in policy-making and institutions, and that these changes would need time to produce results, the authorities set up a Stabilisation Commission in 1981. The principal aims were to study and recommend measures dealing primarily with structural and institutional issues so as to clear the obstacles for balanced growth over the longer-run. The Commission's first recommendations were included in the "Points of Departure for a Long-Term Programme of Economic Stabilisation" circulated in April 1982. This served as the basis for 15 other documents dealing with specific issues. One of the most important and first ones to be published was called the "Anti-Inflation Programme". It analysed inflationary developments and proposed policies to eliminate the fundamental causes of inflation. The "Concluding Part of the Long-Term Programme of Economic Stabilisation" (hereafter to be called the Stabilisation Programme) providing the ideological basis and containing the main conclusions and recommendations was adopted July 8 1983. The Stabilisation Programme contains severe criticism of administrative interferences at local and regional level, which encourage the fragmentation of the Yugoslav market. It stresses the need for a better operation of market forces and a strengthening of the role of workers within the self-management system. Workers should take greater responsibility in decision-making, especially as regards investment and the daily operation of enterprises. The Stabilisation Programme insists, however, on the fact that workers' greater involvement should also be reflected in their participation to the results. In case of loss-making enterprises, substantial reductions in real average earnings should be envisaged in order to restore financial equilibrium. These principles have influenced considerably the formulation of policies since 1982. They were reflected in the Annual Economic Resolutions² establishing the economic goals and related measures and policies for the year ahead.

Income shares and changing domestic demand pattern

Since the beginning of the crisis, policy was geared to achieving a distribution of national income and a structure of demand consistent with the need of correcting the balance of payments position and improving the financial position of enterprises. The allocation of national income between personal earnings and funds for government consumption on the one

hand and gross saving on the other did not change much between 1976 and 1979³ (Table 2). However, the balance between total domestic demand and supply worsened considerably as reflected in the swing from a small current external surplus to a deficit (0.7 per cent of GNP in 1976 and -5.4 per cent in 1979, Table 3). The main cause behind this development was the excessive rise in total investment (including stockbuilding⁴) from 34¼ per cent of GDP to 41 per cent of GDP. With a view to reversing this trend and restoring better balance between domestic savings and investment, the authorities emphasised the need to compress fixed investment. Administrative measures were taken at the end of 1980 to cut back fixed investment. General government investment was particularly affected, declining in volume by one-half in the three years to 1983. Similarly, tighter credit conditions (including the cessation of foreign loans) and political leverage at all levels of government resulted in a 30 per cent volume fall in fixed investment by social sector enterprises over this period. However, private sector investment continued to grow moderately up to 1983⁵, partly due to repatriation of capital by returning emigrants and also to the expected high rate of return in small scale projects.

The share of fixed investment in GDP fell from a peak of 33 per cent in 1979 to 24 per cent in 1983 still fairly high by international standards. Furthermore, a number of plants under construction were clearly uneconomical, adding to capacity in sectors with spare capacity or being excessively import-oriented and heavily energy-dependent. Another worrying aspect was the continuous increase in stockbuilding (for reasons to be discussed in Part II), which largely offset the fall in fixed investment. As a result, the ratio of total investment to GDP was only marginally lower in 1983 than in 1980 (36 per cent and 38½ per cent respectively). In the enterprise sector the gross saving rate increased significantly from 35½ per cent in 1980 to 44 per cent in 1983. However, the greatest part of this increase represented higher interest payments, so that the rise in the part allocated to depreciation and to funds for investment purposes was relatively small. Moreover, in spite of a fall in investment and an increase in obligatory depreciation total investment by enterprises continued to exceed significantly their gross savings.

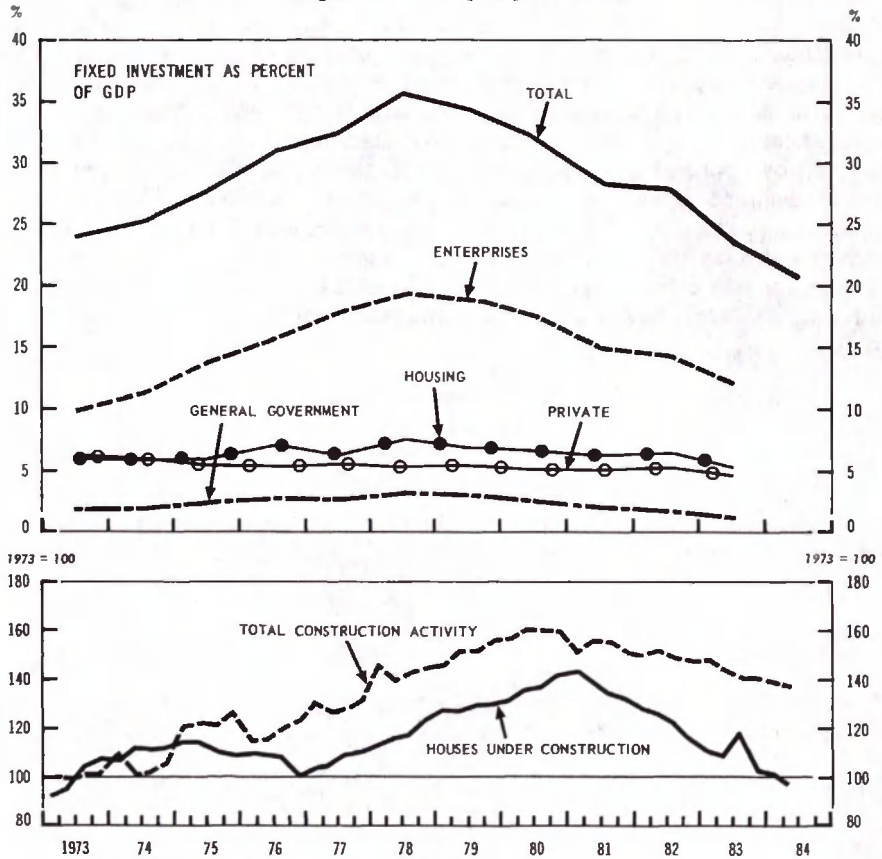
Table 2. Distribution of social product¹

	1976	1979	1980	1982	1983 Provisional
Net average earnings	42.8	38.8	36.9	38.4	36.8
Fringe benefits (collective consumption in enterprises)	3.7	5.9	6.1	4.2	3.8
Net personal earnings	46.5	44.7	43.0	42.6	40.6
Resources allocated to general and collective consumption funds ²	35.5	38.0	36.5	35.2	36.9
Direct savings ³	18.0	17.3	20.5	22.2	22.5
Social product	100.0	100.0	100.0	100.0	100.0
<i>Memorandum items:</i>					
Gross saving					
Per cent of SP	40.7	39.5	38.8	39.2	38.0
Per cent of GNP	34.2	34.3	33.4	34.7	33.3
Net personal earnings as a percent of GNP	47.3	47.2	44.8	44.9	43.0

1. The distribution of Social Product is based on Yugoslav national accounting concepts. These figures refer to the *initial* distribution of SP, i.e. excluding savings out of net personal earnings and out of resources allocated to general and collective consumption funds.
2. These funds finance general government consumption (less the wage and salary bill paid to government employees), investment projects directly undertaken by the government, and also transfers to households and to a lesser extent to enterprises for investment purposes.
3. Direct savings denote the sums directly set aside by enterprises for investment purposes (including amortization), for reserves and for other future capital or capital related liabilities.

Sources: *Indeks*, No. 7, 1984, Federal Bureau of Statistics and OECD estimates.

Diagram 1. Investment patterns



Sources: Indeks and direct communications to the OECD.

With policies aimed at raising gross saving and compressing domestic demand, real net average earnings fell by almost one-fifth in the three years to 1983. In the public sector and related activities the reduction was even sharper (around one-fourth). A strong consensus between the Federal Government, Republics and Autonomous Provinces developed for reducing significantly the wage bill. This policy line was imposed on institutions dealing with social security, social welfare, education, culture etc. Recommendations for moderate pay rises in enterprises were also backed by political leverage and additional pressure was put on them to reduce fringe benefits. This was reflected in a significant decline in fringe benefits paid by enterprises (from 6¼ per cent of Social Product in 1980 to 3¾ per cent in 1983). In addition to the pace-setting role of pay increases in the general government, a number of rules were introduced with the aim of keeping the growth of the enterprises wage bill significantly below that of their total income. These were not fully observed for a number of reasons: high and accelerating inflation coupled with constant exchange rate adjustment complicated the book-keeping procedures; enterprises often deliberately increased the book value of their

stocks and included in income the revaluation of foreign exchange deposits (due to the depreciation of the dinar) and uncollectable receivables. All these practices tended to artificially inflate enterprises' income, so that after deduction of the wage and salary bill, gross savings appeared on paper higher than they actually were. Nonetheless, the decline in net average earnings and fringe benefits was considerable, more than offsetting the increase in employment. As a result, the share of net personal earnings⁶ in total income of enterprises fell in three years by 7 percentage points to just over 35 per cent in 1983. As a percent of the Social Product it declined by 2½ percentage points to 40½ per cent. However, consumers' expenditure as a percent of GDP remained broadly stable with the result that desired release of resources to investment and net exports was not realised. The fall in net personal earnings in the social sector was indeed largely offset by an increase in the income of the private sector (including agriculture) and by a reduction in the overall personal savings rate (to be discussed in Part II).

Table 3. **Pattern of demand**
Per cent of GDP at market price

	1962	1972	1976	1979	1980	1982	1983 Provisional
Consumers' expenditure	46.4	53.6	51.5	51.9	51.1	51.4	52.0
Government consumption	19.4	16.0	17.4	17.6	16.9	15.8	14.7
Gross fixed investment	30.3	26.2	30.3	34.6	31.7	27.1	23.9
Final domestic demand	96.1	95.8	99.2	104.1	99.7	94.3	90.7
Stockbuilding	5.0	5.2	4.4	6.4	6.9	9.9	12.1
Total domestic demand	101.1	101.0	103.6	110.5	106.6	104.2	102.8
Exports	15.8	20.9	19.0	16.0	22.3	19.0	18.9
Imports	16.9	22.9	21.8	25.2	30.6	23.9	22.3
Foreign balance	-1.1	-2.2	-2.8	-9.2	-8.3	-4.9	-3.4
Statistical discrepancy	0.0	1.1	-0.8	-1.3	1.7	0.7	0.6
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net factor income	-0.3	4.4	3.5	3.8	4.7	4.3	3.8
GNP	99.7	104.4	103.5	103.8	104.7	104.3	103.8

Sources: *Indeks*, No. 7, 1984, Federal Bureau of Statistics; *Statistical Yearbook 1983*; Direct communication to the OECD and OECD estimates.

Policies for reducing government consumption were more successful, with the share of the latter in the Social Product falling from 17 per cent in 1980 to 14¼ per cent in 1983. However, this was almost exclusively due to the sharp decline in real net personal earnings in the government sector. In volume terms the decrease was relatively small (less than 1 per cent per annum) as public sector employment continued to rise. In addition to personal income norms and in line with the Economic Resolution, the public sector achieved small surpluses after 1980. To sum up, despite the unfavourable international environment and domestic difficulties, notably the stagnation of output (which did not facilitate changes in income distribution), the pattern of demand was significantly modified between 1980 and 1983. The share of total domestic demand in GDP fell by almost 4 percentage points, thus releasing resources to the foreign sector. In fact, from a deficit of 3½ per cent in 1980 (5½ per cent of GDP in 1979) the trade balance and net factor income from abroad added together, swung to a surplus of ½ per cent of GDP in 1983. But in order to achieve these changes, the authorities

often applied selective administrative measures and emergency action to supplement both macro and micro-instruments. Although successful in tackling the most immediate problems, administrative controls have tended to aggravate some of the underlying imbalances, therefore contributing to prolong the adjustment.

Mounting inflationary pressures

On the official list of priorities, the fight against inflation was high. But despite intentions and concrete policy measures, price advances⁷ – after some pause in 1982 – gathered momentum in 1983. At the end of 1983 consumer price increases reached 60 per cent, compared with the previous peak of 44 per cent in mid-1981. In varying degrees all price measures followed the same movement – deceleration in 1982 and re-acceleration in 1983 at a time when the OECD rate of inflation fell steadily to about 5½ per cent. Yugoslavia has always been a relatively high inflation country, but the differential vis-à-vis the OECD area was never so large. Moreover, in the past, high inflation facilitated the transfer of resources to the productive sectors, thus contributing to the high rate of growth and rapidly rising personal incomes up to the end of the 1970s. In the more recent period, however, inflation gathered strength despite stagnant activity and the substantial fall in real net average earnings. Many factors were responsible for this atypical development. They relate to the emergence of structural disequilibria, and to existing institutional arrangements and policies (including the spill-over effects from policies trying to correct imbalances in other areas.) As noted in previous surveys, the establishment of “Communities for Prices” encouraged oligopolistic price fixing on the basis of the costs of the least efficient producers⁸. The rapidly changing institutional environment and regulations⁹ also created uncertainty and bred speculative forces. In fact anticipatory and speculative price increases to forestall changes in price regulations often took place. Finally, the incomes policy applied in 1980 and 1981 put upward pressure on prices instead of reducing inflation, as was the original intention¹⁰. In order to

Table 4. Contributions to the increase in prices
Percentage points

	1980	1981	1982	1983	1984 OECD estimates
Net unit labour costs ¹	6	10½	7½	8¾	12
Profits and other domestic costs ²	6½	7¾	9	8½	14
Food prices ³	8¾	9	7½	8	11½
Import prices	6¾	8½	9	13	10½
Net indirect taxes	1½	4½	1¾	2¾	4¾
Residual	1	¾	-1¾	-¾	¾
Private consumption implicit price deflator ⁴ , percentage change	30½	41	32¾	40	53¾
<i>Memorandum items:</i>					
Percentage changes					
SP implicit price deflator	30½	40¾	32	41½	58
Unit labour costs, enterprises only (excluding agriculture)	23½	37½	30	31½	44¾

1. Net unit labour costs (including fringe benefits) in the productive sectors i.e. excluding social security contributions paid by enterprises on behalf of employees and for their own account.

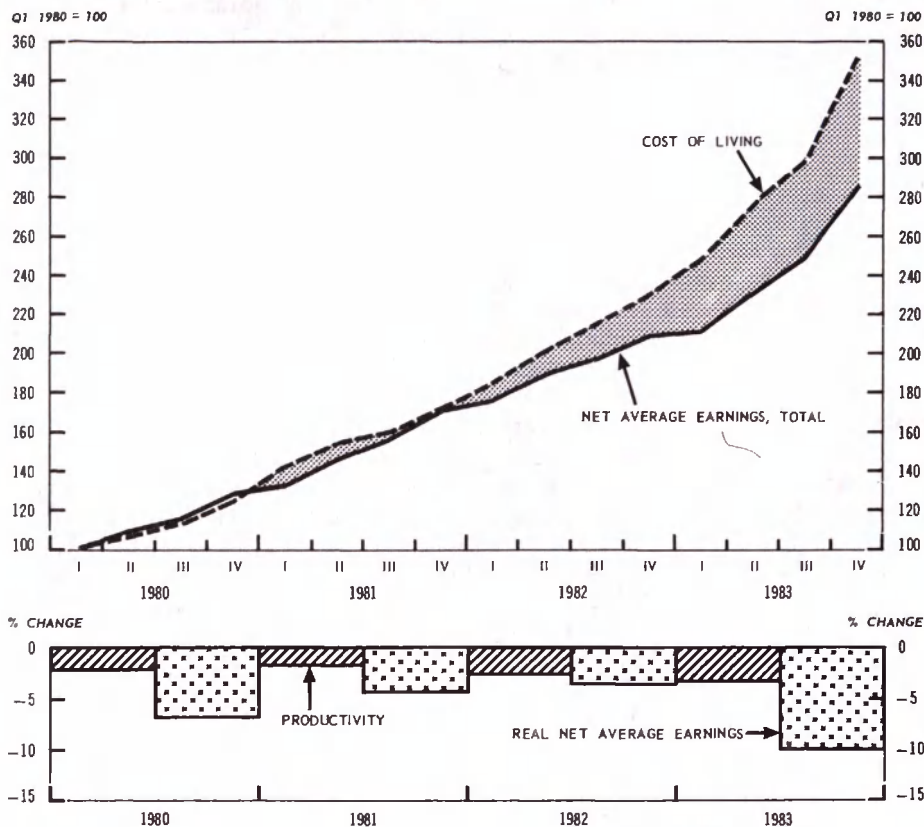
2. Profits, amortization, increase in reserves and other domestic cost elements (including taxes and contributions paid on behalf of workers).

3. Food prices as calculated in the producer price index.

4. Private consumption implicit price deflator on the basis of Yugoslav national accounting concepts, i.e. it excludes consumers' expenditure on "non-productive" services.

Sources: *Indeks*, Federal Bureau of Statistics, and OECD estimates.

Diagram 2. Productivity, real earnings and cost of living



Sources: Indeks and OECD estimates.

improve their liquidity position and raise their gross saving rate enterprises, instead of compressing pay increases, raised prices more than unit labour costs or costs of materials would have justified.

Apart from inappropriate institutional arrangements and policies, economic forces also played an important role in the high and rising inflation in the early 1980s. The absence of foreign competition in a large number of sectors (due to foreign exchange restrictions) provided a propitious ground for breeding inflation. It was all the more the case, since import restrictions were applied primarily on consumer goods for which domestic demand remained relatively strong during the period. As a result, but also due to the significant real effective depreciation of the dinar, enterprises involved in the final stages of production of consumer goods were able to raise prices more than warranted by cost considerations. Since mid-1981, the rise in import prices (in dinars) accelerated to well above that in domestic costs, adding about 22 percentage points to the cumulative increase in the cost of living in the two years to 1983. Allowing for the indirect effects resulting from the realignment of certain domestic prices on world prices and speculative price behaviour, the total effect of the effective

depreciation was considerably bigger¹¹. Moreover; inflation had been suppressed over a long period. After the first and second oil shocks energy prices lagged somewhat behind world prices. Similarly, there were big delays in adjusting other administrative prices. Some catching up took place towards the end of 1983 but the effect on consumer prices remained limited for the year as a whole, (they showed up in a steep rise in the consumer price index in December 1983). With the aim of stimulating agricultural production, food prices were allowed to increase faster than industrial and service prices. The substantial decline in real net average earnings was probably the only element to exert a dampening impact. However, given wage-price linkages, the rise in average nominal earnings accelerated from 23¼ per cent at the end of 1982 to 36¼ per cent one year later. Given the continued decline in labour productivity (at an annual rate of 2½ per cent in the 3 years to 1983) this contributed to fuelling the inflationary spiral, albeit less than other cost elements.

Balance of payments and external financing

Against the background of a weak international environment, policies were fairly successful in turning around the current external account from a large deficit in 1979 (\$3½ billion) to a small surplus in 1983 (\$¼ billion). However, the improvement was mainly achieved through severe import restrictions¹² which caused supply bottlenecks and negatively affected industrial production. The compression of domestic demand especially the fall in investment – the import content of which is high – also played a role. The \$2 billion reduction in the trade deficit with the convertible currency area between 1980 and 1982 was exclusively due to a decline in imports, as exports remained broadly stable¹³. Exports in convertible currencies only rose somewhat in value in 1983, accounting for just over two-fifths of the

Table 5. Indicators of external transactions
Billion \$

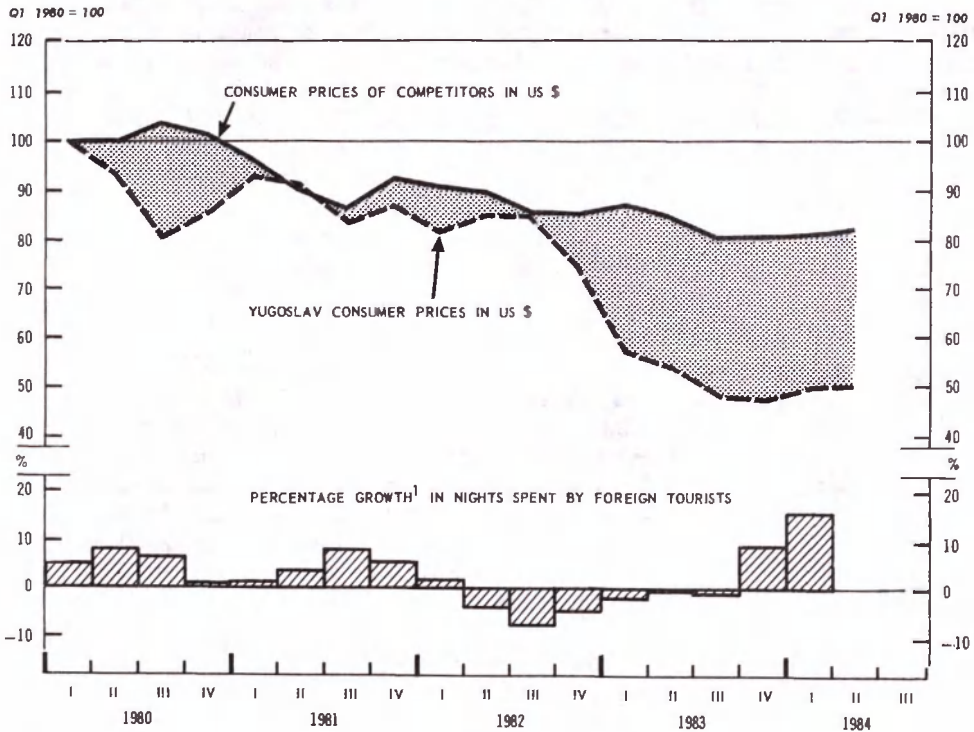
	1976	1979	1980	1981	1982	1983
Trade balance, total	-2.5	-7.2	-6.1	-4.3	-2.8	-2.2
In convertible currencies	-2.5	-6.6	-5.7	-4.9	-3.5	-1.8
On a clearing basis		-0.6	-0.4	0.6	0.7	-0.4
Net fuel imports ¹	-1.0	-2.0	-3.3	-3.5	-3.2	-3.0
(Crude oil, m. tons)	(8.3)	(11.8)	(10.9)	(9.3)	(8.5)	(9.4)
Current account balance, total	0.2	-3.6	-2.3	-1.0	-0.6	0.3
In convertible currencies		-3.3	-2.2	-1.8	-1.6	0.3
On a clearing basis		-0.3	-0.1	0.8	1.0	0.0
Change in trade balance, total		-2.6	1.1	-1.8	-1.5	-0.6
Volume effect		-1.7	2.1	-2.1	-1.1	-0.4
Price effect ²		-0.9	-3.2	0.3	-0.4	-0.2
Change in merchandise exports, Total		1.0	2.2	1.2	-0.3	0.0
Volume effect		0.2	0.7	0.3	-0.9	-0.2
Change in merchandise imports, Total		3.6	1.1	-0.6	-1.8	-0.6
Volume effect		1.9	-1.4	-1.9	-2.0	-0.6
Export/import coverage in convertible currencies	56.4	48.6	49.2	54.0	61.1	77.7

1. Including electricity.

2. Price effect is calculated as a residual. The changes in volume and prices show the orders of magnitude and the direction of change and they do not purport to show exact figures.

Sources: Indeks, Federal Bureau of Statistics, and OECD estimates.

Diagram 3. Price competitiveness and tourism
Relative consumer prices expressed in US \$



1. 3-quarter moving average.

Sources: *Indeks* and OECD estimates.

reduction in the trade deficit with that area. The cumulative fall in total export volumes amounted to about 5 per cent in the three years to 1983. This was partly due to depressed export markets, especially in developing and OPEC countries (which absorb about one-fourth of total Yugoslav exports); the composition of exports biased in favour of products for which world demand was particularly depressed (e.g. ships); and the lagged effects of the deterioration in price competitiveness in the two years to the spring of 1982. Furthermore, the establishment of "self-managed communities for foreign economic relations" (CIFER) at the federal, republican and regional levels coupled with the administrative fixing of export and import quotas, and allocation of foreign exchange reduced the role of market forces. It also led to the multiplicity of different shadow exchange rates both between regions and across industrial sectors. These arrangements hampered the rational allocation of resources at the national level and their needed transfer to the export sectors. At the end of 1982 (becoming effective in 1983) there was an important shift in policy emphasis towards more unified planning and control of foreign transactions, with the Federal authorities (including the CIFER at the federal level) securing a predominant position. In addition, a more realistic exchange rate policy was followed resulting in successive sharp depreciations of the dinar. In

the 18 months to end 1983, the cumulative depreciation amounted to about 60 per cent in nominal effective terms and 33 per cent in real effective terms.

The unsatisfactory export performance was accompanied by a marked decline in net invisible receipts from \$3¼ billion in 1980 to \$2½ billion in 1983 (from \$3½ billion to just over \$2 billion in convertible currencies). Invisible receipts are dependent on three items – emigrant remittances, tourism and shipping earnings – which were particularly affected by the world recession. The fall in tourist earnings and emigrant remittances denominated in US dollars was partly due to the appreciation of the dollar vis-à-vis European currencies (and especially the DM), in which the biggest proportion of tourist receipts and remittances are recorded. With regard to emigrant remittances (the most important item on the receipts side) the decline in real personal incomes in the OECD area and in the number of Yugoslav workers in EEC countries played an important role. Following a marked increase in 1981, the number of nights spent by foreign tourists fell sharply and by 1983 were about 10 per cent below their 1980 level. In addition to the near stagnation in European tourism, Yugoslavia suffered in 1982-1983 from the lack of foreign newspapers and magazines (in order to save foreign exchange) and rumours about shortages of certain goods which discouraged tourism up to 1983. Reflecting the real effective depreciation of the dinar, the country's relative price position¹⁴ which had remained broadly unchanged up to 1982, improved substantially in 1983. This showed up in a reversal of the downward trend in tourist arrivals from August 1983 onwards. On the expenditure side, the increase in external debt and especially high nominal interest rates raised the average level of interest payments to abroad by almost one-half in the three years to 1983. At \$1.5 billion in 1983 net interest payments in convertible currencies were nearly double the amount of net tourist receipts and only marginally lower than the level of net emigrant remittances.

The significant improvement of the current external balance together with some drawings on official reserves has stemmed the rise in foreign indebtedness since the end of 1981. Since then, the total net convertible currency debt remained roughly stable at \$19 billion (about one-half of GNP). However, the debt service ratio continued to increase from 20 per cent of total current account receipts in convertible currencies in 1980 to 34 per cent in 1983. This rise was largely due to debt repayments (including short-term loans) which widened during the period from 12¾ per cent to 21 per cent of total current receipts in convertible currencies. This trend reflected both the increase in external debt and the rising share of short- to medium-term debt in the overall debt structure, in line with the preference of international financial institutions. Moreover, about two-thirds of the external debt in convertible currencies is denominated in US dollars and is mainly on a floating rate basis so that both the effective appreciation of the dollar and high real interest rates have raised considerably the burden of servicing. Interest payments rose from nearly 8 per cent of total current receipts in convertible currencies in 1980 to about 12 per cent in 1983.

Negotiations for new financing arrangements for 1983 involved on the one hand the Yugoslav federal authorities and on the other hand the IMF, 13 foreign Governments and a number of foreign commercial financial institutions. Medium- and long-term new foreign credits amounted to \$4.2 billion. The BIS credit of \$500 million was drawn and repaid within the year. IMF credit under the standby arrangements totalled \$615 million and less than \$100 million were drawn from the IBRD structural adjustment loans. Government and government guaranteed credits drawn (both financial and trade-related credits) were about \$850 million (total commitments \$1¼ billion) and some \$2.4 billion commercial banks credits were disbursed (including a two-year roll-over of short-term debt). Repayment of maturing debt, (including the refinancing debt), totalled \$2.7 billion. Moreover, in line with the policy of reducing short-term debt, which had grown rapidly up to mid-1981, \$670 million

of short-term credits were repaid, bringing their outstanding to just over \$1.1 billion at the end of 1983 compared with \$2.2 billion at the end of 1981.

II. SHORT-TERM ECONOMIC POLICIES AND PROSPECTS, 1984-85

The 1984 Resolution and objectives

When the Economic Resolution for 1984 was being prepared in the autumn of 1983, it had become evident that many of the objectives set for 1983 would not be realised and that a further tightening of policy was needed. Since 1984 was the first year of implementation of the Stabilization Programme, the Economic Resolution also proposed the gradual introduction of institutional and policy changes, as well as particular measures to deal with structural problems. Priority was again placed on compressing domestic demand, improving the balance of payments and modifying the foreign exchange and trade systems. Emphasis was also put on income distribution, with a view to containing private consumption growth, reducing price disparities, improving the financial position of enterprises and raising their self-financing rate of investment. These policy aims had already been stressed in earlier resolutions, but it had become quite clear that in the absence of more determined efforts in the short-run, chances of correcting over the medium-term the country's serious imbalances would be jeopardized. Following three years of stagnation and in view of its expected positive effects on income distribution, resource allocation and inflation, resumption of a positive growth rate was also set as an important goal for 1984.

The growth of the Social Product and of industrial production were set at 2 per cent and 3 per cent respectively (See Table 6). Domestic demand was again projected to decline moderately, led by fixed investment and to a lesser extent by general and collective consumption. Real personal incomes and private consumption were forecast to remain roughly stable. Total exports of goods and services were predicted to grow by 16 per cent (20 per cent in convertible currencies), with the improvement of the real foreign balance being the only source of growth. In addition to the favourable lagged effects of the previous year's sizeable real effective depreciation of the dinar, export growth projections relied heavily on a strengthening of world trade and tourism. With a view to reviving activity, it was also decided to lift certain import restrictions on raw and intermediate materials which, together with power cuts¹⁵, had contributed importantly to the stagnation of output in 1982-83. Because of great uncertainties, the objective of gradually reducing inflation was not translated into a quantitative target.

The decision to enhance the efficiency of macro-economic policies at the Federal level, in line with the Stabilization Programme, and the general consensus for improving economic performance was reflected in greater effort by all levels of government and institutions to attain the most important quantitative targets set out in the Resolution. There were, however, some delays in introducing the proposed institutional and policy changes and in taking specific measures dealing with underlying imbalances. In addition to procedural delays and long drawn-out negotiations between republics (and provinces), and among enterprises and institutions within these republics, certain policies and measures also had to be made compatible with the international obligations of Yugoslavia. Because agreements with the institutions involved in the external debt refinancing arrangements were concluded in the course of the year, some related policy measures were correspondingly delayed. It should also

Table 6. Demand and output¹

	Billion dinars current prices	Percentage volume changes				
	1983	1979	1980	1981	1982	1983 ²
Consumers' expenditure	2 100	5.2	0.7	-1.0	-0.1	-0.6
Public consumption ³	352	7.9	2.7	-2.9	-1.0	1.0
Fixed investment	1 035	6.4	-1.7	-9.8	-5.7	-10.2
Final domestic demand	3 487	5.9	0.0	-4.3	-1.9	-3.6
Stockbuilding ⁴	577	4.3	1.4	3.0	0.0	0.6
Total domestic demand	4 064	9.7	1.3	-1.1	-1.7	-2.6
Foreign balance ⁴	9	-2.4	5.3	4.0	0.9	1.2
Exports ⁵	1 251	3.3	8.9	-0.1	-11.0	-0.6
Imports ⁵	1 242	9.6	-9.9	-12.2	-13.4	-5.5
Statistical discrepancy ⁴	10	-0.7	-4.4	-1.4	1.6	0.1
Social product	4 083	7.0	2.2	1.4	0.7	-1.3
Social sector		7.2	2.4	1.2	-0.1	1.4
Private sector, total		5.8	0.8	2.4	5.3	-0.8
Excluding agriculture		6.3	3.8	1.3	-0.3	n.a.
Agriculture and forestry	638	5.3	-0.1	2.8	7.4	-1.1
Other activities	3 445	7.3	2.6	1.1	-0.5	-1.3
Industry	1 588	8.2	4.1	4.3	0.6	-0.1
Construction	312	9.6	0.2	-4.9	-7.5	-13.1
Services	1 535	5.9	1.7	-0.5	0.7	-0.7
<i>Memorandum items:</i>						
SNA concepts ⁶						
GDP market prices		6¼	1¼	¼	¼	-1½
Government consumption		5½	2	-6	-¼	-3½

1. Yugoslav definitions and concepts. Volume changes for 1979 and 1980 are on the basis of 1980 prices and for 1981, 1982 and 1983 are on the basis of 1982 prices.

2. Preliminary estimates.

3. Public consumption is called "general and collective consumption" according to Yugoslav definitions.

4. Percentage point contribution to the growth of the social product measured by taking the change in stockbuilding (foreign balance or statistical discrepancy) as a per cent of GDP in the previous year.

5. Calculated at the rate of 63.40 din = 1\$ US.

6. Volumes changes are Secretariat estimates.

Sources: Direct communication to the OECD and OECD estimates.

be noted that the rebound in inflation since the end of 1983 has exacerbated business uncertainty and complicated economic management.

Monetary and fiscal policies

In Yugoslavia, monetary policy¹⁶ has typically played an important role in demand management. A further strengthening of this role was envisaged when the Stabilization Programme was initially formulated in 1982. However, in the event monetary policy was not as efficient as anticipated. An important reason was the continuing attractiveness of foreign exchange deposits up to 1983 due to: the positive real interest rates offered, whereas dinar deposits carried negative real rates; the substantial increase in the value of these deposits when measured in dinars as a result of the depreciation of the exchange rate; their convertibility and transferability abroad. Accordingly, the value of total foreign exchange deposits (converted into dinars) rose from 35 per cent of dinar deposits at the end of 1980 to 63 per cent at the end of 1983. Whereas in 1980 the value of households' deposits in foreign exchange only slightly

Table 7. The structure of deposits

	Billion dinars, End-1983	Percentage change during the year						
		1979	1980	1981	1982	1983	June 83	June 84
							June 82	June 83
Deposits in dinar ¹	1 984.5	27.8	27.2	31.4	34.3	24.6	33.0	37.9
of which:								
Households	417.3	24.2	11.9	27.8	32.3	23.4	22.7	22.5
Enterprises (OAL)	937.7	27.8	36.5	31.4	31.7	24.0	25.5	34.1
Deposits in foreign exchange (expressed in billion \$U.S.)	1 250.5	28.9	59.1	46.3	43.9	86.2	75.5	47.9
Households	912.3	(25.6)	(4.2)	(7.0)	(-7.1) ²	(-7.8) ²	85.6	49.3
(expressed in billion \$U.S.)		38.5	55.9	38.9	51.4	88.5		
Enterprises (OAL)	338.2	(34.9)	(2.1)	(1.6)	(-3.0) ²	(-6.3) ²	53.6	44.2
(expressed in billion \$U.S.)		8.0	68.1	66.2	27.3	80.3		
		(5.2)	(10.1)	(21.5)	(-19) ²	(-11.8) ²		
Total deposits	3 232.6	28.0	34.2	35.2	37.0	42.8	45.0	41.3

1. Deposits with banks and financial institutions.

2. Approximate estimates showing the order of magnitude.

Note: In the year to September 1984 household deposits in dinars increased by almost 30 per cent and in foreign exchange by 50 per cent.

Source: *Quarterly Bulletin of the National Bank*.

exceeded that of dinar deposits, at the end of 1983 it was more than double. This large increase was almost exclusively due to the depreciation of the dinar. In foreign currencies the rise in deposits remained modest. This trend has been reflected in an equivalent marked increase in the liquidity of the economy, a development running counter to the objective of tight monetary policy. In effect, the rise in liquidity supported a high level of private consumption whereas successive targets up to 1983 called for a sizeable fall in consumption. Another serious problem was the uncontrolled growth in inter-enterprise credits, as enterprises continued to bypass the banking system thus avoiding credit controls. Inter-entrepreneur credits increased by about 62 per cent during 1983 compared with 36 per cent for bank credit giving an increase for total bank and inter-entrepreneur credit of 44 per cent compared with a growth of GDP of around 38 per cent. These trends have reduced the efficiency of monetary policy as monetary targets became less and less representative of total liquidity conditions in the economy.

When evaluated in terms of money supply and credit expansion targets, the monetary stance in 1984 can be considered as fairly restrictive. However, when other factors are also taken into account the assessment is less certain. The authorities have fixed target growth rates for NDA¹⁷, domestic credit and M3 of 18 per cent, 23 per cent and 23 per cent respectively. After allowing for valuation changes, the implied rise in monetary aggregates is significantly higher, being consistent with a projected growth of nominal Social Product of 43 per cent and a considerable increase in velocity. The target for M1 was set at 38 per cent, suggesting an important shift in favour of sight deposits which, in the opinion of the authorities, would reflect efforts by enterprises to improve their liquidity position. Credit to the public sector is projected to grow moderately, while consumer credit is forecast to be curbed. On the contrary, with a view to supporting residential construction, credit to housing (including for private housing) is expected to grow relatively fast. In order to avoid overruns, as in 1983, increasing attention will be paid in 1984 to the domestic bank credit target. Because of the availability of up-to-date statistics this aggregate lends itself to monthly controls¹⁸, so that in case of important deviations adjustments can be readily made. In line with past years' experience, commercial banks' obligatory reserves with the National Bank of

Yugoslavia, are not expected to be used as an active monetary instrument to control bank liquidity and hence credit. The authorities rely more in the short-term on directives for regulating bank credit. It should be noted, however, that this instrument has never worked efficiently in recent years due to the great autonomy of commercial banks.

Monetary and credit developments during the first nine months of 1984 continued to diverge from targets, with domestic credit and M3 growing more than projected. Total domestic credit rose by about 38 per cent, annual rate. Demand for credit by enterprises remained fairly buoyant over the period, in order to pay for the increase in interest payments caused by the rise in interest rates and, more importantly to finance inventory accumulation¹⁹. Credit demand for working capital was indeed strong but that for investment projects relatively weak. Whereas in 1982 and 1983 almost one-third of short-term credit was used to finance investment (40 per cent in 1981), the proportion fell to 15 per cent during the first half of 1984. Latest data even suggest that a reversal has taken place since June with long-term credit used to finance current expenses. Demand for credit by households remained subdued. Including valuation²⁰ effects but excluding banks interest payments but not yet credited to clients, M3 increased at about 35 per cent, annual rate, during the first nine months of 1984. Including interest payments the increase was around 50 per cent.

Table 8. Money supply and credit
Percentage change during the year

	Billion dinars End 1983	1980	1981	1982	1983	1984 September ¹
Credit	3 070.2	28.9	22.8	25.4	37.0	42.6
Short-term	959.2	33.1	52.6	32.3	40.7	40.8
Long-term	2 111.0	27.7	13.8	22.6	35.2	43.4
<i>of which:</i>						
Total housing	324.5	42.1	31.4	20.9	5.9	8.9
Credit to households	307.3	33.9	32.0	31.5	12.5	20.4
<i>of which:</i>						
Consumer credit	38.6	0.4	-7.8	2.3	-5.4	10.6
For housing	189.4	57.9	44.9	24.0	11.1	16.2
Credit to enterprises	2 645.8	30.1	23.3	26.4	47.1	49.0
<i>of which:</i>						
For housing	107.3	27.3	28.5	12.6	0.5	0.0
<i>Memorandum items:</i>						
Money supply, M1	888.6	23.0	26.6	26.6	20.1	38.3 ²
Quasi money, M2	2 038.7	36.0	33.0	34.6	47.1	34.2 ²
Money supply, M3	2 927.3	31.2	30.5	31.7	38.5	35.3 ²
Nominal Social Product	4 068.7	33½	43.0	32.0	39.0	

1. Except for the Memorandum items which cover the first nine months of 1984 all other figures cover the period September 1983 to September 1984.

2. The annual rate of growth of money supply for the 9 months to September understates the increase of money supply because interest receipts due on deposits are not included in money supply figures. These are credited at the end of the year only.

Source: Direct communication to the OECD.

Substantial shifts in the composition of deposits took place in the first nine months of 1984. Within the household sector, an important shift took place from sight towards time deposits induced by the sharp increase in interest rates. The rise in household foreign exchange deposits (measured in dinars) was more than due to the valuation effect. Households

Table 9. Interest rates
In per cent

	1980	1981	1982		1983		1984		
			June	Oct.	Feb.	July	May	July	Oct.
Central Bank									
Official discount rate	6	6	12	14	22	30	30	34	47
Credits to banks for selective purposes	1-6	1-6	4-8	4-9	8-12	18-22	18-22	21-25	31-35
Lending rates									
Short-term	12	12	16	21	17	30	39	48	
Long-term	12	12	18	21	30	38	47	48	
Consumer credit	12	12	16	18	20	20	30	34	
Credits for selective purposes	2-7	2-7	8-12	9-17	9-30	22-38	22-42	27-42	
Deposit rates¹									
Time deposits of OALs ²									
Up to 1 year	2	2	2-4	2-4	7-9	7-9	30	34-39	47
Over 1 year	3-6	3-6	8-12	8-15	17-23	17-23	35-38	42	52-55
Deposits by households									
Sight deposits	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5	7.5
Time deposits	9-10	9-10	11-15	13-20	12-28	12-28	30-38	34-42	47-55

1. Interest rates on dinar deposits.

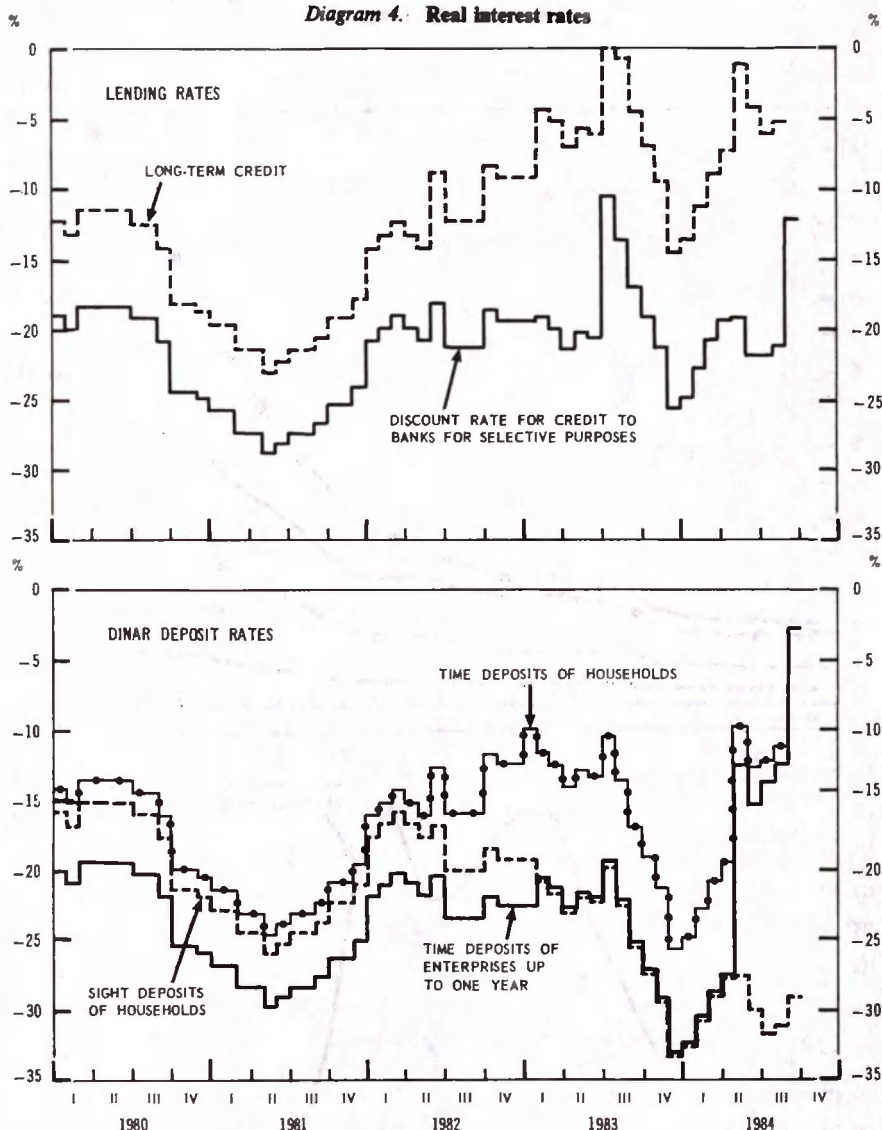
2. Organisations of associated labour (= enterprises).

Sources: *Quarterly Bulletin* of the National Bank and direct communication to the OECD.

apparently preferred to draw on their foreign exchange deposits rather than on their dinar deposits to finance consumption. This was in sharp contrast with past trends and if this behavioural change was to be maintained, monetary management would be greatly facilitated. Enterprises appear to have opted for greater liquidity as a precautionary move against the expected surge in interest payments in the second half of the year but also due, probably, to financial problems entailed by continuing inventory accumulation. This was reflected in a sharp increase in enterprises' sight deposits. Allowing for seasonal factors, inter-enterprise credit continued to rise rapidly, again more than bank credit. Monetary developments during the rest of 1984 will be largely influenced by the continuing high inflation rate and strong demand for credit to finance stockbuilding and interest payments. To sum up, despite some tightening reflecting the steep rise in interest rates the monetary stance is expected to remain on the whole accommodating in 1984, with an overshooting of the credit and monetary targets.

The Stabilization Programme has stressed the role of interest rates in the allocation of resources and since then, the establishment of a realistic level of real interest rates has gained increasing support. This is all the more necessary for a number of reasons: there is no efficient unified capital market at the national level, due to lack of capital mobility and other impediments; the National Bank of Yugoslavia does not dispose of the same array of instruments as do other central banks in OECD countries; up to recently, the market, banks and other financial institutions did not respond adequately to the signals and directives of the National Bank. Interest rates are, henceforth, expected to bear the main burden of monetary management. The National Bank through the use of the official discount rate and interest applied to selective credits has only a limited influence on commercial banks' interest rate levels and structure. In principle, each commercial bank is legally free to determine interest rates on deposits and their structure according to its own criteria. In practice, banks through

Diagram 4: Real interest rates

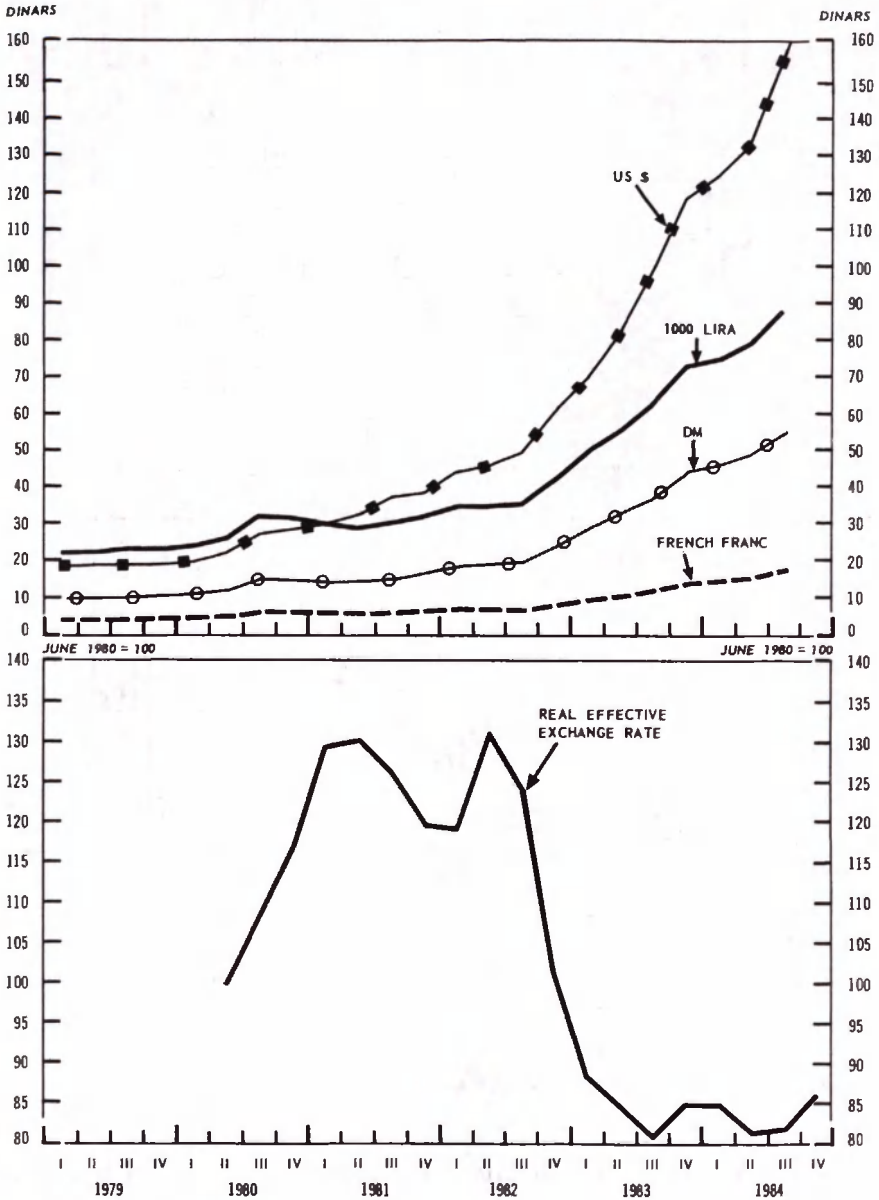


Sources: Quarterly Bulletin of National Bank of Yugoslavia and OECD estimates.

self-management agreements tend to harmonize interest rates so as to avoid large differences, especially within Republics. Moreover, over the last few years, interest rates have tended to follow more closely changes in the discount rate and rates charged on selective credits by the National Bank of Yugoslavia.

The move towards establishing positive real interest rates began in July 1982. However, the successive increases decided upon since then have been lagging behind the acceleration in the inflation rate and at the end of 1983 real interest rates were still strongly negative. Making

Diagram 5. Exchange rates



Sources: National Bank of Yugoslavia and OECD estimates.

interest rates the principal monetary instrument was also in accordance with Yugoslavia's international obligations. Pressure was therefore put on commercial banks and other financial institutions to sign a self management agreement so as to make them legally bound to observe its clauses. This agreement called for the gradual establishment of real positive interest rates by 1 April 1985²¹. Between April and October 1984, interest rates on 3 month deposits of enterprises rose from 7 per cent to 47 per cent. Moreover, the authorities are committed to raise the National Bank's discount rate to the level of banks' interest rate on 3-month deposits. The new interest rate policy has already begun to influence the demand for credit as evidenced by borrowing for investment purposes. It is difficult at this stage to precisely assess what the full impact will be, once real interest rates will become positive on 1st April 1985 (see Part III). There is no doubt that higher real interest rates will also influence the terms governing inter-enterprise credits. A move towards their gradual alignment on banks' interest rates levels and structure could help to dampen the expansion of inter-enterprise credit, which has become an important source of liquidity outside the control of the banking system.

In addition to the establishment of a more realistic level of real interest rates, exchange rate policy constitutes the second pillar on which the adjustment strategy is resting. Because of its strong short-term effects and the urgency of the balance of payments problems, an active exchange rate policy was introduced in October 1982, the dinar being devalued by 18 per cent against the US dollar. At the same time, a basket of currencies was established against which the dinar was measured, with the aim of achieving a sizeable real effective depreciation in the fifteen months to end-1983²². Between September 1982 and November 1983, the real effective depreciation of the dinar amounted to about 35 per cent. Given the inflationary consequences and the favourable effects already feeding into exports, the authorities decided to stop the downward drift of the real effective exchange rate and even temporarily to reverse the trend. As a result, the dinar appreciated in real effective terms up to the end of March before falling again. Excluding these fluctuations, the cumulative real effective depreciation of the dinar amounted to about 35 per cent in the two years to the third quarter of 1984 (most of it occurring during the first twelve months). Even allowing for measurement imperfections²³, there is no doubt that there was a substantial real effective depreciation of the dinar during this period. The objective for 1984 is to broadly maintain price competitiveness, thus keeping the real effective exchange rate stable. Because of relatively long lags, the previous depreciation will continue to exert a favourable impact on foreign external transactions. Inflationary effects from the real effective depreciation had probably largely worked themselves through by mid-year, so that negative effects should be rather small in the second half.

Over the last few years the authorities have been pursuing with determination their twin objective of reducing the size of the public sector and achieving a small budget surplus. Total public sector expenditure fell from about 37 per cent of Social Product in 1980 to 30 per cent in 1983, with a further sizeable reduction planned for 1984. Certain public sector revenues (about 45 per cent of total and mainly concerning republics and provinces) were budgeted to increase substantially less than nominal Social Product growth. Overruns were to be penalised by compulsory deposits of excess revenues into special blocked accounts. The growth of average pay in the public sector was also limited to about four-fifths of that in enterprises. Similarly, transfers to households and subsidies were projected to decline in real terms. In the federal budget, custom revenues were forecast to rise more than twice as fast as other receipts. Defence outlays were planned to rise faster than other expenditure items. Due to much higher inflation than assumed in the budget and to certain expenditure overruns, mainly in self-managed communities of interest for social services (institutions dealing with education, culture, health, national insurance, pensions, etc.), the original projections will probably not

Table 10. Consolidated public sector accounts¹
Billion dinars

	1979	1980	1981	1982	1983 ²
Revenue					
Direct taxes ³	279.6	351.4	458.6	575.7	729.9
Indirect taxes ⁴	157.7	190.0	272.9	326.5	455.7
Other taxes and non-tax revenue	33.4	46.1	66.3	90.6	147.7
Total revenue	470.7	587.6	797.8	992.8	1 333.3
Expenditure					
National defence and administration	103.8	141.2	190.8	238.3	309.1
Education	67.5	82.2	110.8	132.6	168.1
Social security and welfare	178.6	220.6	286.6	380.8	522.2
Interventions in the economy	42.2	53.1	66.0	84.0	145.5
Other expenditure ⁵	77.7	101.2	130.0	139.5	174.5
Total expenditure	469.8	598.3	784.3	975.2	1 319.4
Surplus or deficit	0.9	-10.7	13.5	17.6	13.9
<i>Memorandum item:</i>					
Public sector expenditure per cent of GDP	36.3	34.7	32.5	30.9	29.5

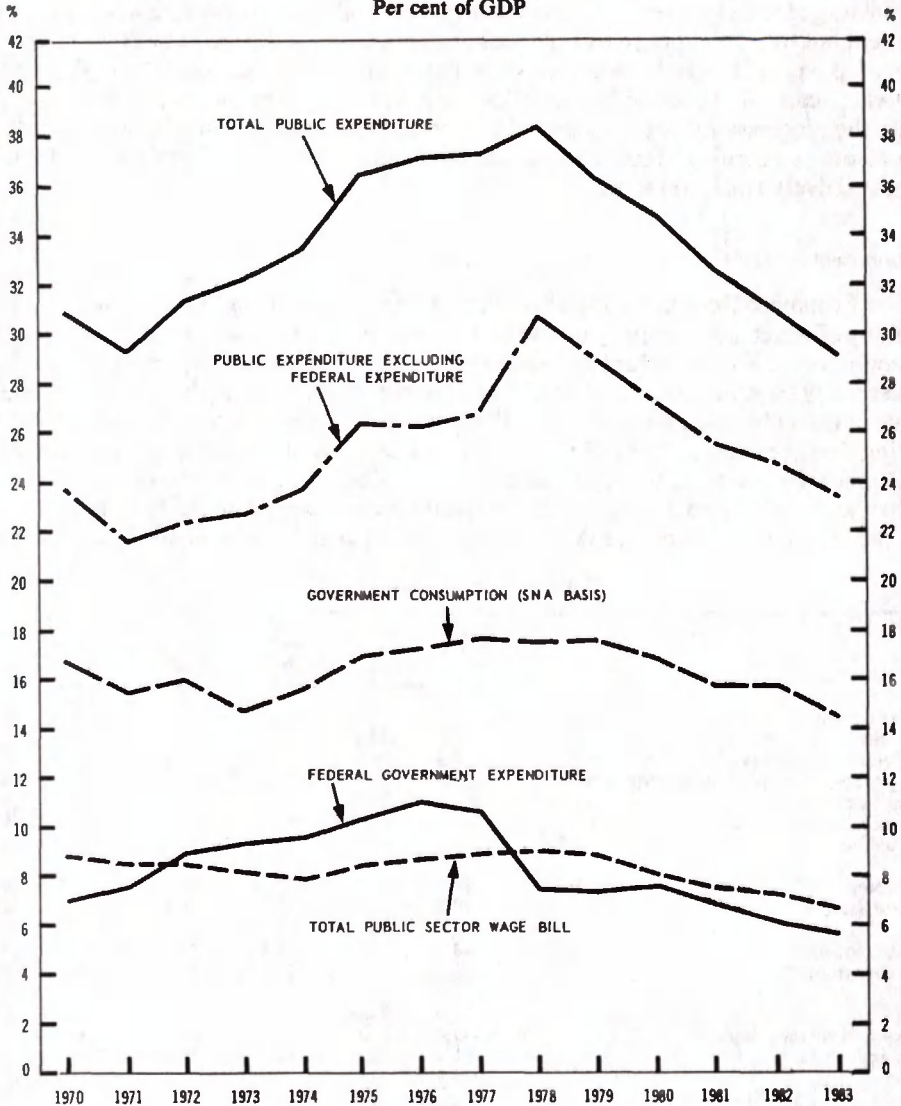
1. Includes budgets, funds and communities of interest at all levels of Government. Excludes the funds for the development of under-developed regions. Net of transfers among public sector units.
 2. Preliminary.
 3. Includes taxes on incomes and profits of enterprises and of individuals, social security contributions, employers' payroll or manpower taxes and property taxes.
 4. Includes taxes on goods and services and on international trade and transactions.
 5. Includes expenditure for housing and communal amenities, investment and subsidies for consumption.
- Source: Direct communication to the OECD.

Table 11. Federal budget
Billion dinars

	1980	1981	1982	1983	1984 Budget
Regular revenues	109.5	164.8	199.0	262.1	374.0
Customs duties	20.7	26.2	28.3	44.6	83.8
Basic sales tax	47.4	71.3	85.2	112.0	150.1
Contributions from republics and autonomous provinces	38.5	63.8	80.4	97.4	130.6
Other	2.9	3.5	5.1	8.1	9.5
Expenditure	129.5	167.0	196.3	259.5	370.8
National defence	76.3	101.0	118.2	154.6	233.9
Administration	9.3	13.8	14.9	21.0	26.2
Grants to republics and provinces	14.3	16.0	20.8	24.8	32.6
Investment	2.0	1.1	1.9	1.7	1.5
Supplement to pension funds	24.9	31.3	38.9	54.9	73.9
Other	2.7	3.8	1.6	2.5	2.7
Balance on regular account	-20.0	-2.2	2.7	2.6	3.2
Allocations	2.5	2.4	2.7	2.6	3.2
Budget reserves	0.1	0.3	0.2	0.1	0.2
Debt repayment and other	2.4	2.1	2.5	2.5	3.0

Source: Direct communication to the OECD.

Diagram 6. Fiscal trends
Per cent of GDP



Sources: Direct communication to the OECD and OECD estimates.

be fully realised. Execution of the federal budget appears to be in line with initial projections, notably with regards to average pay increases. In the rest of the public sector, expenditure overruns including higher pay than planned have been recorded. In spite of these developments, the main budget objectives are expected to be broadly attained in 1984 – i.e. a decline in public expenditure in real terms and a small surplus. The authorities have started to study the implementation of the fiscal changes proposed in the Stabilisation Programme. The principal objective is to pass on to personal incomes a larger burden of total taxation and

correspondingly reduce the share of indirect taxes. From 31 per cent the total turnover tax rate is envisaged to be lowered to 27½ per cent; the federal turnover tax rate will continue to be 17 per cent but the rates applied by republics and communes will be reduced from 7 per cent to just over 5 per cent. The latter decrease should be more than compensated by higher personal taxes (which can only be levied by republics and communes). The intention is to considerably increase the progressivity (which is now almost insignificant) of personal income tax rates and to tap revenues accruing from rent, self-employment income, and farming which yield at present relatively small amounts.

Developments in 1984

The Economic Resolution for 1984 was calling for important adjustments on the real side, many of which are currently taking place. In addition to real net average earnings, most other components of household income were projected to register a sharp decline in real terms. Social security transfers have continued to fall in real terms as a result of fiscal restraint but also due to the indexation mechanism²⁴. There was a strong rise in remittances from abroad, reflecting the depreciation of the dinar. Total household real disposable income is estimated to fall by about 4½ per cent, bringing the cumulative decline since 1980 to some 12 per cent. However, as in 1983 the decrease in real disposable income is expected to be largely offset by a fall in the saving rate. From a peak of around 17¼ per cent in 1980-82 the household saving

Table 12. Household account¹

	1983 Dinars Billion	1980	1981	1982	1983	1984 OECD provisional estimates
		Percentage change				
Net salaries and other personal income in the Social sector ²	1 367.5	24.8	44.5	27.9	29.7	47¼
Social Security transfers	377.5	24.6	31.9	36.1	32.7	45
Net wages and salaries in the private sector	237.8	32.0	45.6	49.5	40.3	48
Consumption in kind	198.0	31.5	50.2	35.8	49.0	45
Remittances from abroad	247.9	83.7	24.2	33.1	24.4	58
Other income	189.5	40.2	17.3	34.3	18.4	53
Total income	2 618.2	31.7	38.3	38.2	30.9	47½
Less taxes ³ and fees	74.1	33.0	35.2	41.8	33.3	60
Disposable income	2 544.1	31.1	38.4	31.9	30.8	47
Private consumption	2 230.2	31.0	38.8	31.9	38.8	51½
Savings	313.9	34.6	36.6	32.2	-7.1	11½
Money and savings deposits	541.4	35.0	30.2	53.4	129.2	
Housing investment	161.4	26.0	41.3	33.9	19.0	
Other ⁴	-388.9					
Saving ratio ⁵ (per cent)	12.4	17.6	17.3	17.4	12.4	9½
<i>Memorandum items:</i>						
Real percentage changes, 1983 prices						
Disposable income		1.1	-1.6	0.2	-6.9	-4½
Private consumption		0.5	-1.4	0.2	-1.2	-1¼

1. The household account is based on SNA definition - OECD concepts.

2. Taxes and contributions on wages and salaries are paid directly by the enterprises and other bodies to the government and to the various funds (mainly social and welfare funds); accordingly wages and salaries are practically net of taxes and contributions.

3. These are taxes paid only by those earning about two and a half times the average wage and salary.

4. Including statistical error and instalment payments.

5. This presentation of household income and in particular of the saving rate differs from that in Table E of the Statistical Annex. In Table E foreign exchange deposits in dinars are not included and accordingly shows a much lower saving rate.

Sources: Direct communication to the OECD and OECD estimates.

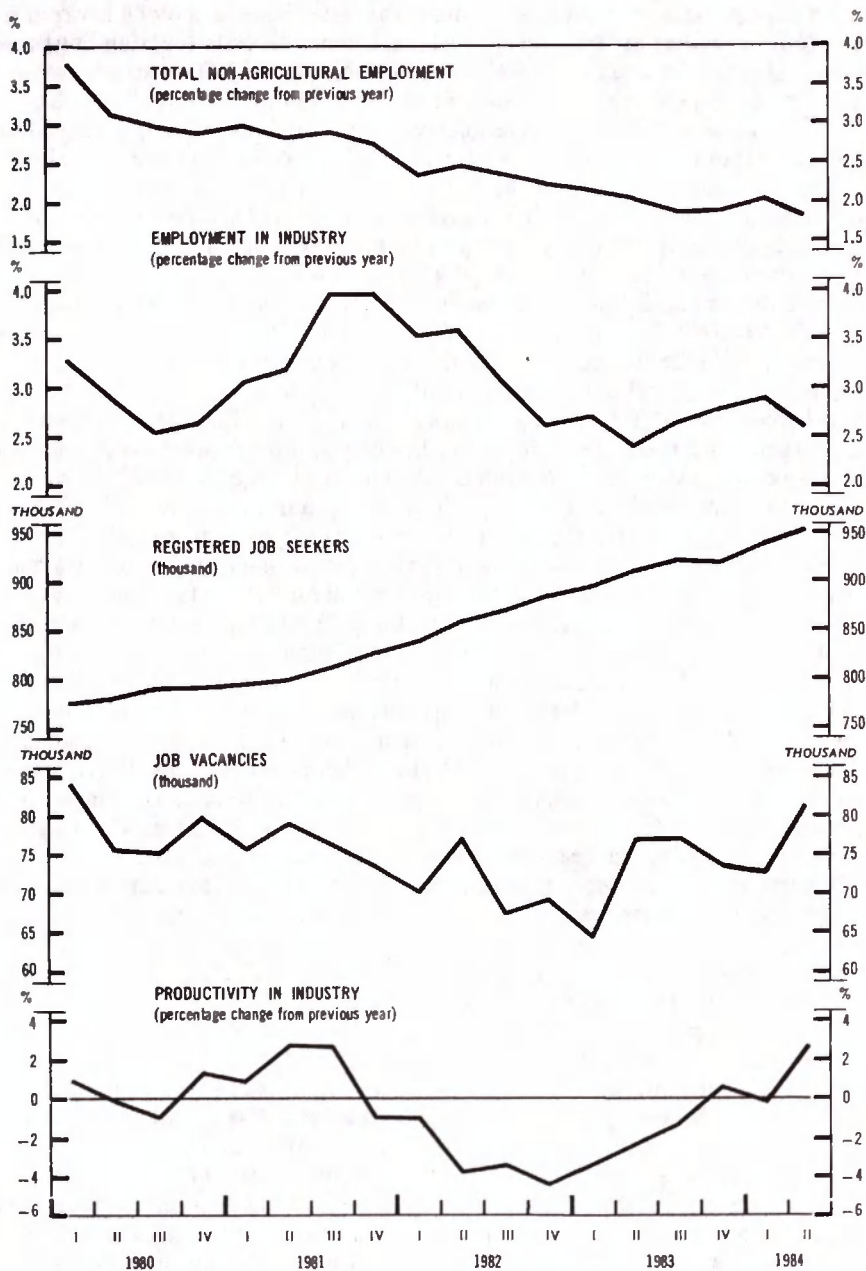
rate may fall to 9½ per cent in 1984. During 1983 total deposits by households increased by 62 per cent in dinar terms, or 15 per cent in real terms, influenced by foreign exchange deposits. Reflecting the depreciation of the dinar the latter increased by 88 per cent in value and 34 per cent in real terms. As a result, total household deposits (outstanding) rose from 42 per cent of disposable income in 1982 to 52 per cent in 1983. This strong wealth effect largely explains the 5 percentage point decline in the saving rate. No real wealth effects are expected to take place in 1984 and households will actually draw on their savings. However, total household deposits at the end of the year will still exceed in real terms their level of two years' earlier. Volume retail sales in the January-September period were about 4 per cent down from a year earlier, but consumption of own products by farmers (because of good harvest) has been rising. Overall, despite the increased demand for certain services, consumers' expenditure will probably fall slightly in 1984.

The predicted small decline in the volume of general and collective consumption will probably not be realised. With regard to fixed investment, all indicators point to a sharp fall approximately in line with the projections of the resolution. However, investment in plant and equipment as well as capital outlays by general government may decline less than initially foreseen, whereas the fall in housing may be much larger. Enterprises appear to have restricted considerably their expenditures on housing and other social amenities for their workers, channelling instead available funds into industrial projects. Credit for new projects would seem to have declined further, reflecting tighter credit conditions, and more importantly the fall in demand. The directives for increasing enterprises' self-financing ratio and securing sufficient working capital in advance of investment, together with the rise in interest rates, appear to have led to a better screening of new projects. Investment in private enterprises has continued to increase. However, the potential for even stronger rise is often frustrated in certain republics by administrative interferences.

The decline in final domestic demand is expected to be largely offset by a further rise in stockbuilding. This is partly explained by agricultural stocks (due to a good harvest) and voluntary stockbuilding. Indeed, the fragmentation of the goods' and foreign exchange markets, institutional impediments, the continuous depreciation of the dinar, inflationary anticipations and speculative behaviour limit significantly the operation of market forces. In general, the benefits that enterprises derive from holding high stock levels often significantly exceed the cost of financing. More recently, however, involuntary stockbuilding has also been reported reflecting declining private consumption and construction activity. Including a positive contribution from the real foreign balance, Social Product is projected to increase by around 2½ per cent. Agricultural output may expand at about the same rate. The growth in industrial production is estimated at about 4¾ per cent. Reflecting falling investment in infrastructure, housing and official buildings, construction activity has remained on a steep downward trend. Output for services is also expected to rise, partly influenced by a sharp recovery in tourism.

Despite slack economic conditions employment has continued to grow at an annual rate close to 2 per cent since the beginning of 1983. The rules stipulating that enterprises, general government and other institutions have to increase employment, together with social pressure to alleviate unemployment (mostly effective in small towns and villages) explain the continuous growth in numbers employed. Employment rose in all sectors except in construction, where it fell by 1½ per cent (i.e. nearly the same rate as in 1983 and 1982). The revival of activity in the first half of 1984, has had an immediate influence on business confidence, which in turn was reflected in a sharp increase in the number of unfilled vacancies (7½ per cent from a year earlier). Unemployment remained on an upward trend because of the growth in the labour force and the continuous outflow from agriculture. There were some

Diagram 7. Labour market trends



Sources: *Indeks*, direct communication to the OECD and OECD estimates.

Table 13. The 1984 economic resolution and prospects
Annual percentage volume change

	1983	1984 ¹		1985
		Economic Resolution	OECD estimates	Preliminary official estimates
Consumers' expenditure	-0.6	0.7	-1	2
Public consumption	1.0	-1.1	1½	1½
Fixed investment	-10.2	-10.7	-9	2½
Final domestic demand	-3.6	-2.8	-3	2¼
Stockbuilding ²	0.6	1.3	2½	¾
Total domestic demand	-2.6	-1.2	-	2¼
Foreign balance ²	1.2	1.8	2¼	1¼
Exports	-0.6	16.0	8½	11½
Imports	-5.5	7.0	8½	7¾
Statistical discrepancy ²	0.1	1.2	1	-
Social product	-1.3	2.0	2½	3½
of which: Industry	0.8	3.0	4¾	4
<i>Memorandum items:</i>				
Current external balance in convertible currencies (\$ million)	(299)	(750)	(850)	(1250)
Employment	2.0	2.0	2	2½
Productivity, total social sector	-3.3	0.0	½	1
of which: Industry	-1.2	1.0	1¾	1¼
Real net average earnings	-8.0	0.0	-6	1

1. Volume changes are calculated on the basis of 1983 prices.

2. Percentage point contribution to the growth of the social product.

Sources: Direct communication to the OECD and Secretariat estimates.

950 000 registered job-seekers in mid-1984 (13½ per cent of the labour force excluding private farmers), which suggests that there were about 730 000 actually²⁵ unemployed. As in 1983, the number of unemployed with higher education and skills increased, whereas there was a small decline in the number of semi-skilled and unskilled unemployed. The increase in unemployment was concentrated among young age groups.

The balance of payments situation has continued to improve substantially in 1984. The current account surplus with the convertible currency area rose to \$700 million in the first nine months of the year (from \$150 million in the same period of 1983). Given the likely continuation of this trend, the official objective (\$¾ billion) will probably be exceeded in 1984. Total merchandise exports rose in dollars by 5¼ per cent in the January-October period (growing by 9 per cent in convertible currencies but declining by 1 per cent on a clearing basis)²⁶. Measures introduced since the end of last year to compel enterprises to accelerate the repatriation of export earnings also contributed to this improvement²⁷. The recovery in OECD trade, notably buoyant US imports, coupled with the effects of the sizeable real effective depreciation in 1983 are largely responsible for the substantial growth in exports in convertible currencies. The rise in export volumes was probably rather large, notably to the US. Exports to developing countries (including OPEC) were negatively influenced by import restrictions in these countries. The high content of machinery and equipment in total Yugoslav exports to these countries, demand for which has weakened dramatically, also played an important role. As a result, export volumes to this group of countries fell considerably. For the year as a whole, export volumes are expected to increase by about 8 per cent.

Table 14. Balance of payments
\$billion

	1980		1981		1982		1983	
	Total	Convertible currency	Total	Convertible currency	Total	Convertible currency	Total	Convertible currency
Exports	9.0	5.6	10.2	5.7	10.2	5.9	9.9	6.3
Imports	15.1	11.3	14.5	10.6	13.2	9.6	12.1	8.1
Trade balance	-6.1	-5.7	-4.3	-4.9	-3.1	-3.8		
Net invisible receipts:	3.8	3.5	3.4	3.0	2.6	2.4	2.5	2.1
of which:								
Tourist receipts ¹	1.1	1.1	1.1	1.0	0.8	0.8	0.9	0.9
Net emigrant remittances ²	2.3	2.3	2.4	2.4	1.9	1.9	1.7	1.7
Net transportation receipts	0.8	0.7	0.9	0.7	0.6	0.7	0.7	0.6
Net interest dividend payments	-1.1	-1.1	-1.6	-1.6	-1.8	-1.7	-1.5	-1.5
Current account balance	-2.3	-2.2	-0.9	-1.8	-0.5	-1.4	0.3	0.3
Long-term capital, net	1.9	1.8	0.5	0.6	-0.1	0.0	1.5	1.5
of which: (Repayments)	(-2.9)	(-2.7)	(-2.7)	(-2.5)	(-2.3)	(-2.0)	(-2.9)	(-2.7)
Short-term capital ³	0.0	0.4	0.6	0.2	-0.1	0	-2.2	-1.6
Bilateral balances	0.4		-0.7		-0.8	0	0.2	
Used of Fund credit	0.3	0.3	0.7	0.7	0.6	0.6	0.4	0.4
Net official reserves (-increase)	-0.3	-0.3	-0.2	-0.2	1.0	1.0	-0.2	-0.2
<i>Memorandum items:</i>								
Current balance, per cent of GDP	(-3½)	(-3¼)	(-1½)	(-2¼)	(-¾)	(-2¼)	-	-
Excluding net fuel imports								
Current account balance	1.0		2.5		2.6		3.3	
Trade balance	-2.8		-0.8		0.4		0.8	

1. Gross tourist receipts. This item includes the foreign exchange receipts only through official agencies.

2. Including pensions and other private transfers.

3. Including errors and omissions.

Note: The statistical exchange rates applied to convert values into dollars are: for 1978, 1979 and 1980 \$1 = 27.3 dinars and for 1981 and 1982 \$1 = 41.80 dinars.

Source: Direct communication to the OECD.

Higher export earnings, especially in convertible currencies, allowed some easing of import restrictions on raw and intermediate materials from OECD countries. As a result, the downward trend in total imports (in value) is expected to come to an end towards the turn of 1984. Export/import coverage in convertible currencies rose to 84 per cent in the first ten months of 1984, up from 78 per cent in 1983 as a whole. Import volumes seem to have remained broadly stable (higher imports of raw and intermediate materials roughly offset by lower imports of machinery, capital equipment and consumer goods). The trade deficit narrowed to below \$1 billion with the convertible currency area in the January-October period. On the export side, the switch in exports from developing and Comecon countries to OECD countries has continued in 1984 for the second year running. This entailed a much greater adjustment than may appear at first sight, since exports to the first and the second group of countries do not meet quality and other requirements for western markets. This switch underlines a substantial improvement in the productive process, quality control, and marketing in the export oriented sectors.

Invisible earnings are also expected to increase markedly in 1984, notably tourism and emigrant remittances. In the first ten months of 1984 the number of nights spent by foreign tourists were up 19 per cent from a year earlier²⁸, entailing an even faster increase in tourist receipts. The downward trend in emigrant remittances is also expected to²⁹ be reversed. The

Table 15. Foreign trade in 1984
\$billion

	1983	January-October	
	Year	1983	1984
Exports, total	9.7	7.3	7.7
Convertible	6.0	4.6	5.0
Non-convertible	3.7	2.7	2.7
OECD ¹	3.1	2.3	2.9
Developing countries	2.0	1.6	1.3
Comecon	4.6	3.4	3.5
Imports, total	11.8	8.9	9.2
Convertible	7.7	5.8	6.0
Non-convertible	4.1	3.1	3.2
OECD ¹	5.3	4.0	4.1
Developing countries	2.0	1.5	2.1
Comecon	4.5	3.4	3.0
Trade balance	-2.1	-1.6	-1.5
Convertible	-1.7	-1.2	-1.0
Non-convertible	-0.4	-0.4	-0.5
OECD	-2.2	-1.6	-1.2
Developing	-	0.0	-0.8
Comecon	0.1	0.1	0.5

1. The exact definition in Yugoslav statistics is "developed countries". Trade with OECD countries accounts for more than 99 per cent of total trade with developed countries.
Sources: *Indeks, Monthly Statistical Bulletin* and direct communication to the OECD.

Table 16. External debt
\$billion

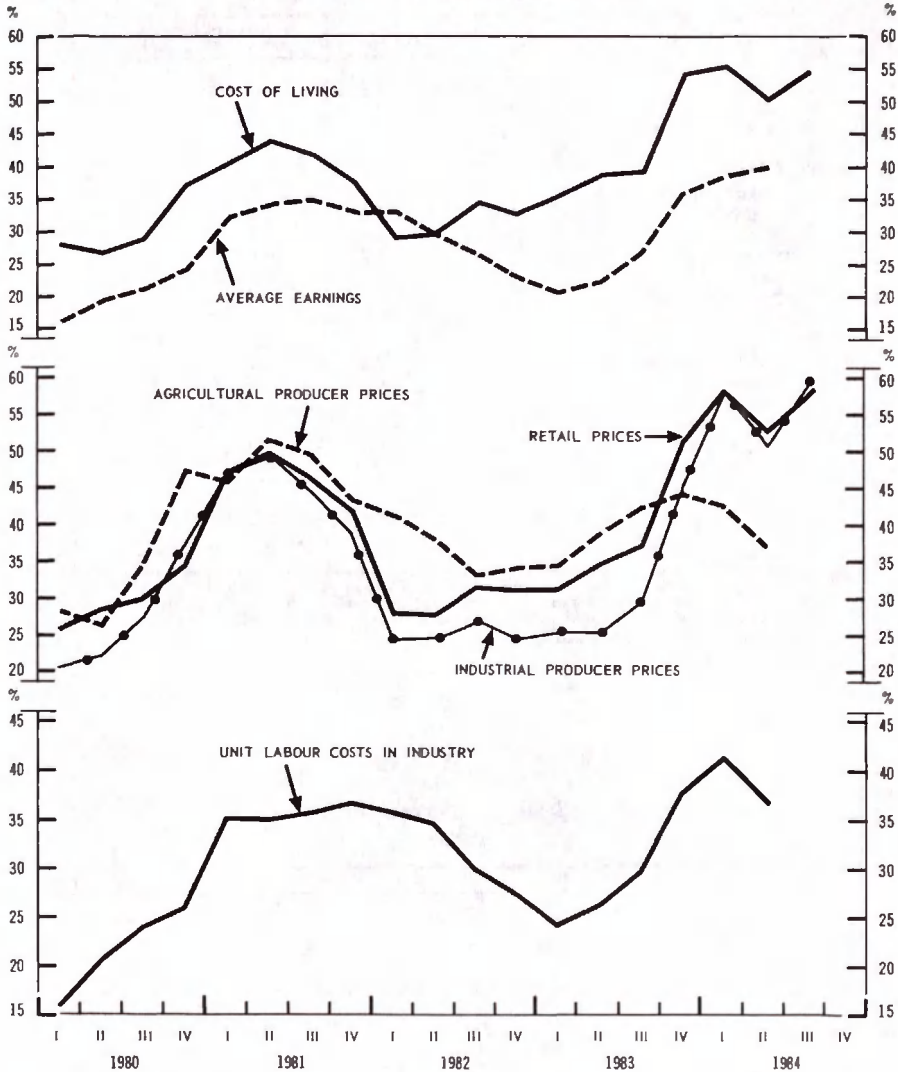
	1973	1975	1977	1978	1979	1980	1981	1982	1983 ¹
Total gross indebtedness	4½	6½	9½	11¾	15	18¾	20	20	20½
Less lending	¾	¾	1	1	1½	1½	1¾	1¾	1¾
Total net indebtedness	4	5¾	8½	10¾	13¾	17¾	18¾	18½	18¾
of which:									
Public total		2¾	2¾	3½	3¾	4½	6	6½	6¾
IMF		¼	¼	¼	½	¾	1¼	1¾	2¼
IBRD		¼	½	¾	1	1¼	1¼	1½	1¾
Other	1	1½	1¾	2¼	2	2½	3¼	3	2¾
Business banks	½	¾	1½	2¾	4¾	6½	6½	6½	6½
Interest payments	¼	¼	¼	½	¾	1¼	2	2	1¾
Capital repayments	¾	1	1¼	1¼	2	2¼	2	2	3
Debt servicing, total	1	1¼	1½	1¾	2¾	3½	4	4	4¾
(As a per cent of total current account receipts)	(19)	(19)	(19)	(18)	(20)	(20)	(21)	(24)	(27)

1. Preliminary data.

Note: The figures are not precise estimates; the margin of error is at most \$¼ billion on either side for recent years. The data may not add up because of rounding.

Sources: OECD, *External Debt of Developing Countries*; IMF, *Yearbook*; IBRD, *Annual Report*; National Bank of Yugoslavia, *Annual Report*; and OECD estimates.

Diagram 8. Inflation indicators
 Percentage change from previous year



Sources: Indeks and OECD estimates.

effects of the 1982 abolition of tax rebates for the purchase of goods with foreign currency are wearing out and there are no longer anticipations of a sizeable real effective depreciation of the dinar, which held back emigrant transfers up to 1983. Overall, net emigrant remittances may rise slightly from the \$1.7 billion level registered in 1983. The above favourable trends are forecast to be partly offset by the increase in interest payments (due to higher Eurodollar rates in 1984), so that the rise in the net invisible surplus is expected to remain modest. The

current account surplus with the convertible currency area will contribute to the planned increase in official reserves. The estimated credit drawings under the refinancing arrangements will amount to \$3¼ billion in 1984, of which about \$3 billion will probably be for debt repayments and a little over \$100 million to reduce short-term debt. Financing arrangements provide for commercial bank credit of about \$1¼ billion and approximately the same amount for government and government guaranteed credits. \$350 million is expected to be drawn from the IBRD structural adjustment loan, while IMF credit may provide up to \$300 million. The rest, about \$50 million, is likely to be in the form of suppliers credit.

Towards the end of 1983 inflationary pressures were considerably stronger than expected earlier in the year. This was partly due to an underestimation of the effects of the substantial real effective depreciation of the dinar and of the associated speculative price increases. Moreover, the authorities decided in December 1983 to raise certain administered prices³⁰ to more realistic levels. With inflation threatening to get out of control, a temporary price freeze (originally planned for six months) was imposed again as from January 1984³¹. Contrary to developments in previous years the price freeze was fully enforced. Excluding certain increases in administered prices (which showed up in the January figures) the annual rate of increase in retail prices fell to 6 per cent during the first five months of 1984 compared with 57 per cent during 1983. The lifting of the price freeze in April and the effective expiration in June of the 30 day notice for price increases³² led, together with a further large adjustment in certain administered prices to an exacerbation of inflationary trends. As a result, in the twelve months to September 1984 the cost of living index rose by 53 per cent (58 per cent for industrial producer prices), broadly the same underlying rate as in the course of 1983. In line with the commitment to liberalise the price control system, the percentage of goods whose prices were allowed to be freely determined was raised in the early summer to 55 per cent (from 45 per cent up to December 1983). 35 per cent of industrial producer prices continued to be regulated by self-managed agreements within the framework of the regional, republican and federal Communities for prices, while 10 per cent³³ were maintained under direct government control (principally at the federal level). The authorities had announced, early in the year, that enterprises raising prices more than justified by cost considerations would not be

Table 17. Price developments
Percentage change, annual rate

	1980	1981	1982	1983	Dec. 82 Dec. 81	Dec. 83 Dec. 82	Oct. 84 Oct. 83
Producer prices							
Industrial goods, total	27.3	44.6	25.0	31.6	24.5	55.4	58.9
Investment goods	12.3	24.6	15.8	22.0	18.1	29.5	44.0
Intermediate goods	34.3	48.1	27.1	33.3	26.1	62.2	64.4
Consumer goods	21.1	44.2	24.8	31.6	24.5	53.0	53.5
Agricultural goods	35.6	51.5	34.9	44.9	37.8	50.6	
Retail prices, total	30.4	46.0	29.5	38.9	30.4	58.0	58.4
Agricultural products	34.1	39.2	43.8	42.8	42.5	53.8	41.1
Industrial products	31.6	49.4	28.6	38.9	29.5	60.5	63.6
Services	22.7	29.2	20.3	29.9	20.6	51.2	47.0
Cost of living¹, total	30.3	40.7	31.7	40.5	33.0	60.0	54.6
Goods	31.8	42.9	32.9	42.0	33.6	61.3	55.7
of which: Food	31.5	42.9	38.8	44.9	40.7	63.3	46.1
Durables	29.4	52.1	27.8	31.9	23.9	46.3	67.0
Services	20.5	27.1	22.0	31.1	21.3	46.3	44.9

1. The cost of living stands for consumer prices in OECD statistics.

Sources: Indeks, Monthly Statistical Bulletin, Federal Statistical office and direct communication to the OECD.

eligible for bank credit. In the event, due to practical difficulties this measure does not seem to have been applied.

Given the policy of maintaining a stable real effective exchange rate, import prices are expected to rise considerably less in 1984 than in 1983. On the contrary, increases in domestic costs as reflected by the Social Product implicit price deflator are expected to accelerate in 1984, with all components participating in this trend. Increased financial charges mainly resulting from higher interest rates are likely to exert pressures on prices, especially as far as enterprises try to build up and maintain a high level of inventories. However, this factor should begin to lose weight towards the end of the year when enterprises may be compelled to liquidate part of their stocks because of protracted sluggish demand conditions. In total, from 1983 to 1984, the private consumption price deflator may rise by 54 per cent, the highest rate over the last thirty years.

In line with traditional incomes policy arrangements, emphasis was again put in 1984 on real average earnings (the objective was to stop their decline) and on income distribution. No targets for nominal pay rises were fixed. Pending final formulation of income distribution policies³⁴, only a few concrete measures were taken in 1984, mainly relating to the public sector. The objective was to limit the growth of net average earnings in the public sector to about 80 per cent of that in enterprises. It was also enacted that in enterprises making losses or not meeting their domestic or foreign debt obligations, the rate of increase in average earnings could be reduced to up to 50 per cent of total average earnings at the republican level³⁵. This

Table 18. Average earnings
Percentage change annual rate

	1983 thousand dinars ¹	1980	1981	1982	1983	Dec. 82	Dec. 83	July 84
						Dec. 81	Dec. 82	July 83
Nominal changes								
Net average earnings in the Social sector, total	15.9	20.5	33.6	27.4	26.4	23.2	36.3	43.6
Economic sector, total	15.6	20.9	35.0	27.4	26.8	23.3	36.0	44.6
Industry and mining	15.5	22.3	37.4	27.2	27.9	22.8	38.2	45.0
Agriculture	16.1	24.4	41.4	33.1	28.9	28.1	35.9	43.0
Construction	14.1	18.8	31.6	26.8	20.4	25.4	22.7	41.2
Transport	17.0	20.6	33.9	26.9	26.7	20.3	36.7	43.1
Trade	15.4	17.6	30.1	28.2	28.4	25.8	38.0	40.4
Housing and public utilities	15.2	19.9	31.3	27.8	24.3	21.8	29.1	36.4
Financial and other services	19.5	16.7	29.3	25.7	25.3	20.5	35.9	45.5
Non-economic sector, total	17.0	18.9	27.5	27.1	24.5	23.1	37.4	40.8
Education and culture	17.5	18.7	27.9	26.5	26.0	24.2	38.1	40.2
Health and social security	16.0	17.6	28.8	27.1	23.1	22.1	37.9	44.4
Government ²	17.7	20.8	25.6	27.9	24.1	22.6	36.1	40.2
Real changes³								
Net average earnings in the social sector, total		-7.5	-5.0	-3.3	-10.0	-7.4	-14.9	-8.9
Economic sector, total		-7.2	-4.1	-3.3	-9.8	-7.3	-15.0	-8.3
of which: Industry		-6.1	-2.3	-3.4	-9.0	-7.7	-13.6	-8.0
Agriculture		-4.5	0.5	1.1	-8.3	-3.7	-15.1	-9.3
Non-economic sector, total		-8.7	-9.4	-3.5	-11.4	-7.4	-14.1	-10.7
of which: Government		-7.3	-11.0	-2.9	-11.7	-7.8	-14.9	-11.1

1. Thousand dinars per month.

2. Including socio-political organisations.

3. Deflated by cost-of-living index.

Sources: Indeks, Monthly Statistical Bulletin, Federal Statistical Office.

measure has been applied to nearly 1 000 enterprises, employing about 6 per cent of the total working population in the social sector. Its impact on total average pay rises in the country as a whole is therefore unlikely to be significant. For the fourth successive year, a striking feature of developments in 1984 has been the fact that the fall in real earnings has taken place in a context of accelerating increases in nominal incomes and prices. In July 1984 the year-on-year rise in net average earnings reached 44 per cent. Though somewhat slower than in the enterprise sector, the increase in average earnings in the public sector was higher than budgeted, reflecting rapid adjustment of pay levels in education, health, and social security institutions. Because of direct control, pay increases in government proper have been so far broadly in line with the objective of keeping them about 20 per cent below that in the enterprise sector. For the year as a whole, net average earnings in all sectors may grow by around 45 per cent, again the highest rate for about thirty years. This will imply a further marked decline of about 6 per cent in real terms, following a 10 per cent fall in 1983.

Prospects for 1985

The background against which policies for 1985 are being formulated is clearly more favourable than in recent years. Progress has been made in correcting the pattern of income distribution and achieving a more efficient allocation of resources. The external constraint has also been alleviated somewhat. However, inflation remains a serious problem which, if not controlled, would risk undermining the implementation of both macroeconomic and structural policies. As from January 1985 a new and somewhat more liberal price policy will come into effect. Though price liberalisation will no doubt have beneficial effects over the medium-term, its short-run effects are uncertain. With a year-on-year rise in the cost of living of about 55 per cent at the beginning of 1985 and pressures to arrest the decline in real net average earnings, unit labour costs are likely to increase even faster than in 1984. Moreover, much larger interest payments and efforts to consolidate the financial position of enterprises

Table 19. **Conjunctural indicators**
Percentage change over a year earlier

	1983	1983			1984			
	Year	Q2	Q3	Q4	Q1	Q2	July	August
Industrial production (s.a.a.r., 1980 = 100)	0.0 (104)	0.0 (104)	2.0 (106)	2.8 (107)	2.0 (106)	4.5 (108)	4.3 (111)	5.2
Volume retail sales	-3.0	-5.0	-1.0	-7.0	-6.0	-2.0	-10.8	-10.2
Stocks, end of period								
In industry: Finished goods	7.5	8.5	10.0	9.2	6.1	7.9	8.2	
Raw materials	5.3	2.2	10.0	7.8	-	-	-	
In retail trade	-6.0	-4.0	-5.8	-10.6	-7.8	-5.7	-8.2	
Cement production	-1.4	0.2	4.5	-12.6	-16.0	-6.2	-13.5	
Dwellings, work in progress	1.2	-14.3	-2.7	-12.3	-9.5	-11.2		
Employment, total social sector	2.0	2.0	1.8	2.0	1.9	1.9	2.2	
of which:								
Economic activities	2.0	2.0	1.9	2.0	1.9	2.0	2.3	
Non-economic activities	2.0	2.0	1.6	1.9	1.8	1.6	1.7	
Total job seekers	5.5	6.0	5.9	3.9	4.7	5.3	7.2	8.7
Job vacancies	2.8	0.0	14.7	5.1	9.5	5.8	-0.9	

Sources: Indeks, Federal Bureau of Statistics and OECD, *Main Economic Indicators*.

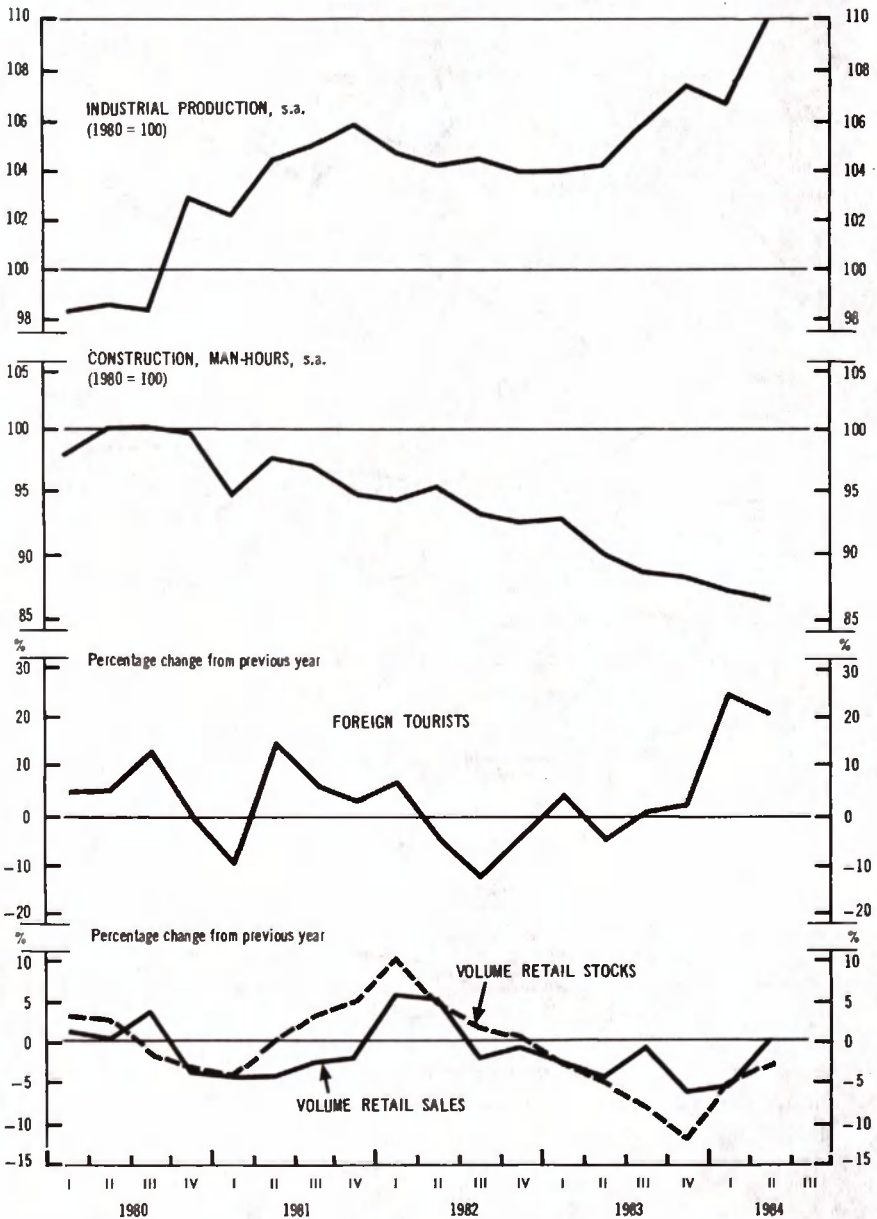
may exert strong upward pressure on domestic costs, reinforcing the wage-price spiral. Similarly attempts by enterprises to increase their incomes through price increases rather than productivity gains and persisting inflationary expectations entailed by the depreciation of the currency will continue in 1985. An important dampening influence may come from the excessive build up of stocks in 1984 and the associated growing financial charges, which may induce enterprises to liquidate part of their inventories. Overall, despite the ongoing macroeconomic and structural adjustment, without new policy initiatives the underlying rate of inflation may not fall significantly from its present high rate.

In view of medium-term objectives and the need to arrest the decline in the standard of living the draft Economic Resolution³⁶ for 1985 has fixed a fairly high rate of growth of Social Product (3½ percent). Exports are projected to be again the most dynamic element. But contrary to developments since 1981 a significant recovery in total domestic demand is also forecast, with all domestic demand components participating in it. Real net average earnings are officially estimated to grow by around 1 per cent, constituting together with an increase in employment the principal factor behind the projected growth in private consumption. Indeed, following four years of decline an upturn in private consumption seems likely, but its strength will largely depend on the achievement of other targets, (namely fixed investment and exports). Net average earnings are forecast to grow in line with productivity, leaving no scope for a rise in the share of gross savings in GDP. An important change in the allocation of savings is, nonetheless, envisaged; the part going to stockbuilding will be reduced and that going to fixed investment increased. The attainment of real positive interest rates will be an important instrument for achieving the reduction in stockbuilding. However, substantial positive real interest rates will also negatively affect fixed investment which, therefore, may not recover as much as targeted (2½ per cent growth). Moreover, the obligation to improve the financial position of enterprises and to finance higher interest charges will also act as a brake to the projected substantial pick-up in fixed investment. But even if fixed investment recovers as much as officially projected, its share in GDP will remain relatively low (around 20 per cent of GDP). This ratio is at the lower range of what would seem appropriate for an economy suffering from many supply shortages and infrastructural bottlenecks. However, owing to more effective screening of projects the efficiency of investment may be increased.

Domestic demand is officially projected to increase by 2¼ per cent in 1985. This appears as an upper limit given the important structural deficiencies still besetting the economy and the need to further raise the current external surplus. Moreover, the realisation of this target hinges importantly on achieving the projected rate of growth of exports, especially in convertible currencies (14¼ per cent). Though exports may benefit from better institutional arrangements, improved efficiency of production and the impact of last year's sizeable real effective depreciation, such a high rate of growth in convertible currencies seems difficult to achieve. It implies a gain in market shares of the order of 8 percentage points or about four times more than in 1984. Given the top priority attached to improving the current external balance the likely shortfall in export growth may induce a correspondingly slower growth in imports, (officially estimated to be 9¼ per cent in convertible currencies). As a result, private consumption and more importantly fixed investment (with its high import content) may grow somewhat less than officially projected. Of course, given the excessively high level of stocks a rundown of stocks would be desirable which, would leave more room for consumption and fixed investment. However, given the strong incentives to accumulate stocks provided by the institutional framework, fragmentation of the market, inflationary expectations etc., without new policy initiatives significant destocking appears unlikely in the short-run.

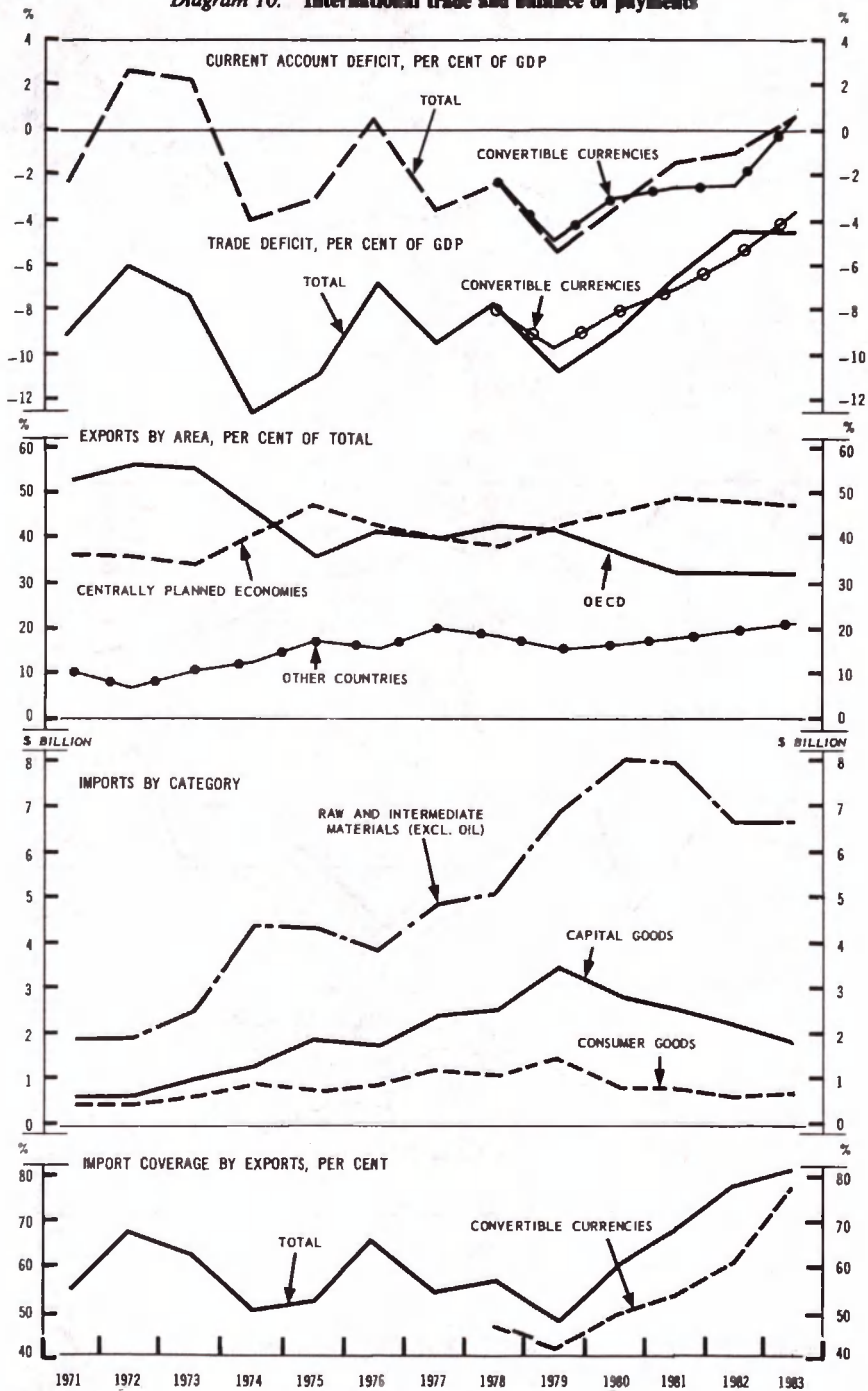
To sum up, the projected growth of Social Product at 3½ per cent though feasible may be difficult to realise, especially if the structural and institutional changes under way fail to have

Diagram 9. Current economic indicators



Sources: Indeks, direct communication to the OECD and OECD estimates.

Diagram 10. International trade and balance of payments



Sources: Direct communication to the OECD and OECD estimates.

an immediate strong impact on behavioural patterns and expectations. Four per cent industrial growth is within the potential of the economy. The authorities forecast an acceleration in the growth of employment in the social sector to 2½ per cent. This, combined with the strong rise in non-agricultural employment in the private sector is officially estimated to broadly offset the increase of the working age population and the continuing outflow from agriculture. The upward trend in unemployment is therefore forecast to come to an end. A small decline may even take place if the number of returning workers from abroad were to decline further. Following a cumulative decline of over 4 per cent since 1980 the predicted increase of 1¼ per cent in productivity in industry is fairly small for a recovery phase, highlighting the need for speeding up the pace of structural adjustment and raising efficiency.

The projected further appreciable increase in the current external surplus in convertible currencies to \$1¼ billion in 1985 is by no means an easy task given the expected slowdown in world trade and the significant turnaround in domestic demand. However, as in the previous few years, there is no reason to question the determination of the authorities to achieve and even surpass the objective for improving the current external balance, even if this would entail somewhat tighter controls on imports than presently envisaged. In addition to the growth of merchandise exports, a relatively rapid growth in tourist receipts is forecast. Similarly, transportation receipts are expected to increase further. The official projections incorporate a small decline in net emigrant remittances and a small rise in interest rates. The latter assumptions may, however, be on the pessimistic side. The downward trend in exports on a clearing basis will also be reversed reflecting less severe financial constraints in developing (including OPEC) and Comecon countries. Accordingly, the current account deficit on a clearing basis is officially forecast to decline to less than \$200 million. Amortization of external debt in convertible currencies is expected to increase to slightly less than \$3½ billion. In addition, the authorities plan to increase foreign exchange reserves by \$300 million net and credits abroad by \$250 million. Overall, about \$3 billion of foreign credits are required in 1985. It is worth noting that for the first time after many years the authorities plan to reduce external indebtedness by some \$¾ billion (including \$200 million short-term credit).

III. STRUCTURAL ADJUSTMENT AND LONGER-TERM POLICY OBJECTIVES

Official medium-term and long-term policy objectives

The authorities' key policy objectives for the years ahead are currently set out in the basic guidelines for the preparation of the 1986-1990 Medium-Term Plan³⁷ and the draft version of the Long-Term Development Plan extending until the year 2000³⁸. These documents provide a good indication of policy intentions, of the degree of ambition of policy-makers and of some of the complex issues confronting the Yugoslav economy. The draft document on the guidelines for preparation of the 1986-1990 Plan sets seven basic objectives:

- Further development and strengthening of the socialist self-managed socio-economic system, through significant revisions of the system itself and changes in the behavioural pattern of economic agents.

- Improvement of working conditions and standard of living of the population to be achieved through resumption of a higher rate of economic growth, more efficient utilization of resources and structural transformation of the economy.
- Promotion of export growth, with exports expanding faster than the Social Product, the aim being to reduce external debt to a tolerable level by the end of the 1990s.
- Steady employment growth, especially that of young educated youth.
- Creation of conditions for stable economic growth through a speedy reduction in the rate of inflation. By 1990 price increases should be brought down to rates prevailing in more developed OECD countries.
- Laying conditions for faster growth of the less-developed regions.
- Strengthening national defence.

Table 20. Selected medium and long-term growth targets
Average yearly rate of growth

	1980	1983	Medium-term	Long-Term
	1975	1980	Plan ¹ 1990	Plan ¹ 2000
1. Gross social product	-	-	2.4	3.5
2. Intermediate consumption	-	-	1.1	2.0
3. Social product	5.6	0.3	4.0	5.2
Social sector	6.2	0.0	-	5.5
Individual sector	2.3	1.7	-	3.0
4. Manufacturing and mining	6.8	1.7	5.0	6.2
5. Agriculture	2.4	2.6	3.0	3.5
6. Living standard	4.7	-1.4	3.7	4.8
Personal consumption	4.9	-0.9	3.7	4.9
Collective consumption	4.1	-3.4	3.8	4.6
7. Gross fixed investment	5.6	-8.9	5.4	5.4
8. Employment, social sector	4.0	2.4	2.0	2.0
9. Productivity of labour	2.1	-2.3	2.2	3.1
10. Exports	3.2	-4.0	5.5	6.0
11. Imports	0.8	-10.5	4.5	5.0

1. Constant 1983 prices, preliminary projections.
Source: Federal Institute for Social Planning.

Only broad macro-economic projections are available at this stage. They are summarized in table 20. As such, the targeted rate of economic growth (4 per cent a year) is ambitious although not out of line with the potential of the economy and therefore not necessarily out of reach. It implies, however, a marked increase in the overall efficiency of the economy. This is illustrated by a number of key assumptions made in the plan. Thus, the incremental capital/output ratio³⁹ is expected to fall from 5.02 in the 1976-1980 period to 4.16 in the years 1986-1990. The rate of growth of intermediate consumptions is assumed to be substantially slower than that of Social Product, whereas it was slightly faster over the last decade. Export volumes are projected to expand at an average annual rate of 6 per cent. Abstracting from the inevitable uncertainties surrounding the international environment, major structural changes will have to take place rapidly in order to achieve the plan's projections. Given the deep-rooted nature of some of the current imbalances and the far-reaching reforms needed in the system of economic management, such rapid pace of structural change may be difficult to achieve. Furthermore, it may not be consistent with the growth pattern sketched in the plan, whereby real average personal income would rise in line with labour productivity (at a rate of 2.2 per

cent a year). The country may need to invest more and consume less than projected if the efficiency of the economy is to be raised to adequate levels.

Targets up to the end of the century – as set out in the *1986-2000 Long-Term Development Plan* – provide a good indication of policy intentions but at the technical level are necessarily tentative. The broad objectives are largely common to that of the *Medium-Term Plan*. They are even more optimistic since the latter targets and the structural changes involved are assumed to be successfully achieved by 1990. They are essentially based on the same set of assumptions built into the *Medium-Term Plan* i.e. high total factor productivity, very efficient use of intermediate inputs, relatively fast export growth. Even assuming that these key assumptions materialize, they appear difficult to reconcile with the expected increase in the standards of living. For the country to resume over the longer-term an average yearly growth in excess of 5 per cent, internal and external constraints will have to be substantially alleviated. Since it is the authorities' objective to reduce foreign indebtedness⁴⁰ a steady transfer of resources towards the external sector will have to take place. A greater investment effort than currently envisaged may also be required to carry out the needed structural adjustment. Such requirements do not appear consistent with the pattern of income distribution envisaged in the plan. In order to throw some light on the nature and the necessary extent of the adjustment task facing the Yugoslav economy, the following three sections briefly deal with a number of key structural issues.

Efficiency and internal competition

Distortions in the domestic productive structure

As in many other countries, the Yugoslav economy has undergone deep structural changes over the last 30 years or so. As a result, a predominantly agrarian economy has been transformed into a largely urban industrial society. This rapid pace of structural change has – at least until recently – been accompanied by a marked increase in living standards and profound improvements in the quality of life, notably in rural areas. However, in spite of the successful postwar economic performance, the process of development has not been without weaknesses. By the early 1970s already, imbalances in the domestic productive structure had emerged. Reflecting the priority given by regional governments to the promotion of their own processing industries and lack of capital mobility, the development of many raw material and basic industries was insufficient to meet the rapidly growing needs of the economy. Import dependence increased therefore substantially, a trend influenced by favourable world energy and commodity prices and the post-1965 liberalisation measures. Nevertheless, the external constraint remained moderate during the period owing to the rising surplus on non-factor services, the rapid growth of workers' remittances and cheap foreign finance. But the country had become more vulnerable to external shocks. Moreover, given a pattern of enterprise income distribution favouring consumption, as well as widespread rigidities in product, labour and financial markets, the two oil crises of the 1970s and the associated marked deterioration in the international environment could not but deal powerful blows to the Yugoslav economy (for more details on developments in the decade to 1983, see previous OECD Economic Surveys).

Growing awareness of the need to correct these structural weaknesses has been reflected in successive medium-term development plans since the early 1970s. These called for a restructuring of the economy through a substantial investment effort in "priority" industries⁴¹, with emphasis put on import substitution and to a lesser degree export promotion. The desirability to increase the overall efficiency of the economy and to strike a better balance between domestic demand and supply conditions was also recognised. But planning

Table 21. **Changes in the structure of the Yugoslav economy**
Percentage share¹

	1952	1960	1970	1980	1983
Social product	100.0	100.0	100.0	100.0	100.0
Social sector	69.5	72.8	81.6	86.3	84.6
Individual sector	30.5	27.2	18.5	13.7	15.4
Manufacturing and mining	21.7	28.2	33.6	39.1	39.5
Agriculture	34.5	30.4	19.2	14.5	14.3
Construction	12.5	9.3	11.3	11.2	8.0
Transport	6.8	8.2	8.7	8.3	8.0
Trade, catering and tourism	16.7	17.5	21.0	20.4	21.1
Crafts	5.3	3.4	3.1	3.1	4.2
Other	2.5	2.7	3.1	3.6	4.9

1. At constant 1972 prices.

Source: *Statistical Yearbook of Yugoslavia*, 1981, 1984.

assumptions were overtaken by events. Not only did the Yugoslav economy slip into macro-economic imbalance and balance of payments difficulties but the structural objectives were not attained either. Admittedly, successive unanticipated external shocks have complicated the adjustment task compelling the authorities to take emergency action to stabilize the economy. But domestic factors have also been responsible for the failure to achieve the needed structural adjustment.

The reasons for these developments have been reviewed in earlier OECD Economic Surveys. What would appear as the most important one was the fact that market forces were not allowed to operate efficiently:

- Since the mid-1960s⁴², the planning process has been increasingly influenced by republican and provincial governments whose aspirations have often been incompatible with the overall development needs of the economy. This has complicated the formulation and preparation of plans at federal level. It has often led to procedural difficulties and given the lack of effective policy instruments at the national level increased inefficiency in plan implementation. As a result, the unity of the domestic market has been eroded and unnecessary duplication of capacity has taken place. (For more details see paragraphs below).
- The greater reliance on quantity rather than price rationing for investment purposes led to a mis-allocation of resources. It has failed to move capital to its most productive uses reinforcing instead sectoral and inter-regional barriers to the mobility of capital.
- Furthermore, market signals to the extent that they were allowed to influence the pattern of investment have also tended to work against the priority sectors. Import rationing made necessary by the poor export performance and an over-valued currency boosted the domestic price and the market profitability of protected sectors, most of them in the non-priority area. These tensions between market indicators and sectoral priorities contributed to capital misallocation. Moreover, the pattern of income distribution was inconsistent with the allocation of resources projected in the successive plans.
- Until recently, trade, exchange rate and interest rate policies have remained inappropriate, contributing importantly to the misallocation of real and financial resources. This process was aggravated by the absence of effective charges on the capital used by self-management enterprises.

As noted, important policy measures have been taken over the last couple of years to correct some of these structural imbalances. (Adjustment of the real exchange rate and new foreign exchange allocation criteria, move towards real positive interest rates, new income distribution criteria, partial correction of the distorted pattern of domestic relative prices.) More are foreseen within the framework of the "Long-Term Programme of Economic Stabilization", and the associated medium-term and long-term development plans. Structural adjustment is all the more needed since the productive structure of the economy remains largely distorted.

As regards agriculture, the country has a relatively strong resource base but primary production has remained substantially below potential. As a result, domestic needs are not always met and the surplus generated for exports is insufficient. Among the various and complex factors responsible for this situation, the great weight given to regional self-sufficiency has probably played a key role by reducing cropping efficiency and distorting investment patterns. But limits on the size of land-holdings, inappropriate pricing policy for certain products and the priority given to the social sector over the individual (private) sector have also contributed. Insufficient production of meat and its high cost provide a good illustration of some of these issues. It is generally recognized that the individual sector could be more efficient in producing almost all categories of meat; human and material resources are indeed available. Similar cases of sub-optimal utilization of resources can be found in a number of other sectors (catering, small-scale industries, crafts, transportation etc.). Since enterprises in the social sector are in fact price leaders, private producers benefit in these sectors from a rent situation.

With regard to industry, serious structural weaknesses persist.

- Although merchandise exports account for around 13 per cent of GDP, the number of export oriented industries taking full advantage of the country's resource base, skill levels, location and experience in craft traditions is very limited. Exports are extremely diversified, covering a large number of articles delivered in small quantities. In many cases they still represent a spill-over of production for the domestic market rather than the outcome of comparative advantage and international specialization⁴³. In certain sectors, however, notably shipbuilding, wood products and footwear, sales abroad account for an important share of total production.
- Existing capacities are generally insufficient in energy and basic industries (electrical energy, coal extraction, certain non-ferrous metals, building materials etc.) but excessive in processing industries.

Table 22. Structure and growth of manufacturing industries

	Structure In percentage of total				Rates of growth Average annual percentage change		
	1952	1960	1970	1980	1960	1970	1980
					1952	1960	1970
1. Energy	15.8	13.2	12.4	11.9	10.1	7.4	6.9
2. Raw materials and intermediate goods	42.9	37.5	37.2	36.1	10.8	8.0	7.0
3. Capital goods	16.8	25.8	26.3	28.0	18.8	8.3	8.0
4. Consumer goods	24.4	23.6	24.1	24.0	12.1	8.3	7.3
Total	100.0	100.0	100.0	100.0	12.7	8.1	7.3

Note: Data for 1983 not available as yet.
Source: Statistical Yearbook of Yugoslavia, 1981, 1983.

Numerous examples of resulting distortions, bottlenecks and sub-optimal use of resources can be reported. Thus, a large thermo-electricity plant has been built in the Autonomous Province of Kosovo, but it cannot operate at full capacity due to insufficient extraction of coal. In winter time, regional black-outs had to be introduced due to insufficient generation of electric power. Oil refining capacities are over 30 million tons while domestic consumption of oil products does not exceed 15 or 16 million tons. An important aluminium refinery in Croatia was closed down in 1983 partly due to lack of bauxite. A very large ferro-nickel mine and smelter in Macedonia, the capacity of which exceeded 3 to 5 times domestic requirements was shut down in 1984. It had run into substantial losses because the ferro-nickel ore content was too low and the price of electricity to smelt it too high. There are 23 sugar-mills, operating at 50 per cent or less of their capacity due to insufficient production of sugar beets. Sugar has therefore to be imported. Slaughter-houses and meat processing firms also operate at less than 50 per cent of their capacity due to insufficient livestock production. The wood and paper industries have developed more rapidly than forest exploitation. As a result of the neglect of the raw material base in the wood industry, Yugoslavia is today a large-scale importer of timber. Low rates of capacity utilization are clearly related to the weak cyclical position of the economy. Nevertheless, in view of the likely persistence of domestic supply bottlenecks, import constraints and lack of export outlets, capacities in certain sectors or industries are structurally excessive. The problem is aggravated by the fact that many plants are basically designed to produce for the local and regional needs, or at best for the Yugoslav national market. Technologies are usually geared to specific imported inputs from a given foreign company. All in all, part of spare physical capacity in processing industries should be considered as economically non-viable.

Certain key infrastructures (railway system and road network) are also deficient. The country's railway system has been decentralized and is now managed by 365 BOALs⁴⁴ and a number of other independent administrative units. As a result, but also due to obsolete equipment the average speed for passengers and goods transportation does not exceed yet its pre-war level. Modernization of the railway system and of the main road network is lagging considerably behind schedule due to decentralized investment financing. For instance, for reasons which may be justified from a regional point of view, Macedonia has decided not to finance during the 1986-1990 planning period the construction of the main national highway running through its territory. This highway which connects Western Europe and the Middle East is the backbone of the Yugoslav road transportation system. In other Republics, modernization has already been completed or is currently underway⁴⁵. It may be doubtful, however, whether the portion of the highway passing through Vojvodina will be completed in time. River transport is also not up to the level of navigable rivers and canals. Coastwise maritime transport is nearly extinct. As a result of all these infrastructural deficiencies, transport costs are estimated to be significantly higher than in other European countries with similar transport and geographical conditions⁴⁶.

Major structural changes in the composition of output will have to be achieved in coming years if current bottlenecks are to be alleviated and if the balance of payments is to be restructured to a configuration sustainable over the medium-term. This will require large investments in a number of sectors, including those considered of strategic importance for future development. More generally, successful structural adjustment will hinge critically on the capacity to generate sufficient domestic saving and more efficient use of the capital stock. This implies a marked departure from earlier practices and institutional mechanisms. More effective mechanisms must be devised to carry out national policy objectives, thus overcoming the problem of disparate and sometimes conflicting interests of the individual republics and provinces. Greater mobility of capital among enterprises and regions will have to be achieved

and more emphasis put on the screening of investment proposals through capital pricing mechanisms and cost-benefit analysis. The pattern of incentives will also have to be further corrected.

The important measures introduced over the last two years or so go some way towards creating conditions for more sustained and balanced growth. But further radical changes in the framework of policy are needed if the Yugoslav economy is to become more flexible and efficient. In this context, it may be noted that new *criteria* for the selection of investment projects are currently under consideration. Although these criteria may be somewhat different among Republics a common denominator should be provided by the observance of a number of key guidelines such as: the income generated by worker, the scope for export promotion and import substitution, and the labour intensity of the project. Apart from separate agreements and compacts⁴⁷ in each republic, a compact on industrial projects that are particularly relevant for the development of the national economy is under preparation. Moreover, the Chamber of Economy of Yugoslavia, together with representatives of Ministries, other Government bodies and scientific organisations will set up groups of experts. These will assess the viability of investment projects according to a number of criteria:

- Contribution to the improvement of the balance of payments.
- Perspectives for domestic and external sales.
- Scope for securing domestic energy and raw material sources.
- Economic rate of return (based on the methodology developed by the World Bank).

Banks will also have to develop specific economic and financial criteria for assessing the viability of investment projects. Before credits can be approved, banks will be under the obligation of taking the opinion of a body of experts. It is to be hoped that these measures will contribute to a more efficient screening of investment projects. However, much will depend in practice on timely and concrete implementation of policy intentions.

Fragmentation of the national market and lack of domestic competition

Smooth and efficient economic functioning of a federal union implies a relatively large degree of economic specialisation among its individual members according to comparative advantages dictated by resource endowments. This presupposes free mobility of goods, services and production factors, as well as federal powers and instruments to ensure that market criteria are effectively applied. In Yugoslavia's case, however, fragmentation of the country's national market has been a major problem. Reasons for such developments are well known. They are to be found in institutional arrangements, the way in which the development strategy adopted by the country since the mid 1960s was implemented⁴⁸ and the way in which the economic system itself tended to work. Under the institutional set-up, each republic and autonomous province is indeed responsible for formulating its own plan within the framework of the Federal planning process. In effect, the national development strategy tends to be the result of the aggregation of regional plans. The responsibility for plan implementation has also been largely entrusted to the republics and provinces each of them having at its disposal a much greater range of policy tools than usually in other countries. Thus, each region has significant discretionary powers with regard to use of credit allocation, fiscal policy, price formation and control and to a lesser extent, use of foreign exchange⁴⁹ and internal trade.

Besides other legal means the unity of the Yugoslav domestic market was to be preserved through the signature at the republican and federal levels of so-called "social compacts". These agreements – in principle consistent with the overall economic aims in the economy –

were expected to exert an offsetting influence to other forces working towards fragmentation. In the event, social compacts often proved inefficient, due to diverging vested interests, the complexity of the arrangements involved, the time consuming process of reaching agreement, inadequate financing and lack of economic criteria as a basis for striking compromises⁵⁰. The scope for enterprises to carry out business transactions according to market rules and criteria has been seriously limited since the mid-1970s. The grouping of enterprises has largely taken place on a regional basis through the conclusion of self-management agreements⁵¹. These agreements govern joint investment ventures, financial transactions, common marketing and purchasing policies, foreign trade relations, etc.. They have tended to strengthen vertical integration and oligopolistic practices in a context of regional autarchy. Self-managed enterprises are composed of a number of independent units or BOALs. Inter-regional integration of BOALs's and enterprises has tended to be discouraged by local governments. As a result, in 1981 only 1.5 per cent of all BOALs belonged to enterprises whose headquarters were located outside their own republics or provinces⁵².

The tendency towards regional segmentation may be highlighted by a few striking figures. Inter-regional trade in goods and services between republics and provinces has declined from 27.4 per cent of total trade in 1970 to 22.2 per cent in 1980. During the period, intra-regional trade flows rose even more – from 59.9 per cent to 68.6 per cent – due to relatively slow merchandise export growth. This trend is evident in all republics and provinces except Macedonia where domestic trade was traditionally very important. As a result, the share of trade between Yugoslav republics and provinces is now below the level of foreign trade among many European countries⁵³. Adoption in 1977-78 of the principle of decentralization in the field of foreign exchange and trade policy and the emphasis put until early 1983 on the regional approach have also importantly contributed to this fragmentation process. As a result, there are many examples of similar products being at the same time exported by one region and imported from abroad by another. In principle, inter-regional mobility of capital should have been provided for through self-managed agreements among enterprises and social compacts. In practice, however, and at least until recently, the process of fragmentation of capital allocation along regional or even narrower geographic lines was fuelled by the existence of largely negative real interest rates, other distortions in factor prices and politicization of investment decisions. The latter was made possible by the priority allocation mechanism itself⁵⁴, the lack of power of banks vis-à-vis enterprise borrowers⁵⁵. Within the framework of regional policy, the 1981-1985 Plan had put greater emphasis on

Table 23. Intra-regional trade in goods and services
Percentage share

	1970	1974	1980
1. Bosnia and Herzegovina	63.2	68.9	70.9
2. Montenegro	48.7	55.5	65.5
3. Croatia	62.8	64.5	71.9
4. Macedonia	66.5	68.3	66.4
5. Slovenia	57.8	63.3	64.3
6. Serbia (proper)	60.0	62.5	69.7
7. Vojvodina	50.0	56.2	64.4
8. Kosovo	56.6	55.8	65.6
Average of SFRY	59.9	63.6	68.6

Note: The figures refer to the percentage share of total production of goods and services, in each republic and province, traded inside its own territory.
Source: Research Center, Faculty of Economics, University of Belgrade.

domestic joint-ventures, with a view to encouraging inter-regional economic linkages between more developed regions (MDR) and less developed ones (LDR). So far, however, the joint venture policy has not been very successful and few important joint venture projects have actually been initiated. The combination of these influences has led to impediments to the mobility of capital, unnecessary duplication of investment facilities⁵⁶, sub-optimal use of resources and lack of competition.

The system of price formation has also encouraged restrictive practices. With the growing influence of "Communities for Prices" in the early 1980s a substantial part of the power for price fixing and controls was transferred from the federal, to the republican, provincial and regional levels. As a result, prices of most products and services, from light consumer goods to electricity, differ from one republic to another and sometimes from one region to another within the same republic according to the policies of the individual Communities of Prices. These price differentials are only partly explained by market related influences. They also reflect competing attempts by regional governments to redistribute national income in their favour by bidding up prices under their direct or indirect control. Achievement of regional redistribution goals through the price mechanism cannot but add to inflation. Such goals should rather be pursued through appropriate regional and transfer policies. Furthermore, as noted in the last OECD Economic Survey, the predominance of producer interests in Price Communities often results in oligopolistic price fixing, thus contributing to market fragmentation.

Table 24. The structure of trade in goods and services by destination
Percentage share

	1970	1974	1980
Total	100.0	100.0	100.0
1. Intra-regional trade	59.9	63.6	68.6
2. Inter-regional trade	27.4	24.6	22.2
3. Export and unknown destination	12.7	11.8	9.2

Source: Research Center, Faculty of Economics, University of Belgrade, Belgrade, 1984.

Fragmentation of a national market already limited to 23 million people into smaller segments has led to reduced economies of scale and specialisation, with corresponding adverse effects on efficiency and costs. If not corrected, such a process would ultimately jeopardize prospects for sustained non-inflationary growth. Some of the measures already introduced or currently envisaged under the framework of the 1983 Long Term Programme of Economic Stabilization and the associated long-term and medium-term plans are going in the right direction. But new initiatives would seem to be called for. The move towards positive real interest rate and the intended adoption of tighter criteria for the selection of new investment projects should make more difficult the validation of regional aspirations for self-sufficiency. As such, however, they do not guarantee that enough mobility of capital will take place to efficiently meet the development needs of the Yugoslav economy. Similarly, there is no doubt that the authorities intend to move towards greater liberalization of the price formation process. It is too early, however, to judge whether the provisions of the draft Law on social control of prices now under discussion in the Federal Parliament will ensure that market mechanisms will operate efficiently at national level. In particular, the concept of inter-dependence stressed by the Law remains to be clarified. More generally, in order to

ensure rationality in a system of decentralized decision-making, market mechanisms will have to play a greater role. But these can only work efficiently if they operate on a national basis.

Inflationary pressures

Supply bottlenecks and inadequate domestic competition resulting from the inappropriate productive structure and fragmentation of the national market are no doubt important factors behind the relatively strong inflationary pressures prevailing in Yugoslavia for quite a long time. These factors have been aggravated by weak foreign competition and income distribution mechanisms. Without fundamental reforms, the medium-term objective of reducing the rate of inflation to around 10 per cent by 1990 will be difficult to achieve. The scope for greater competition from abroad is necessarily limited as long as the country remains subject to a serious external constraint. The lack of competition is particularly important for final consumer goods as imports from convertible currency countries account for 6½ per cent of total imports. Imports on a clearing basis largely from Eastern European countries do not provide effective competition. Over time, as the balance of payments strengthens, import liberalization should contribute to price moderation. But certain institutional arrangements will also have to be modified if external competition is to play its proper role. A striking example of such impediments may be provided by the fact that domestic producers are consulted about import decisions.

Table 25. Long-term inflation trends
Average annual percentage changes

	1966 1960	1973 1966	1979 1973	1983 1980
Consumer prices				
Yugoslavia	13.0	11.0	18.2	36.3
OECD	2.6	5.0	10.0	9.1
OECD-Europe	3.7	5.4	11.4	11.3
Producer prices				
Yugoslavia	5.8	7.6	14.4	31.9
OECD			6.5	7.9
OECD-Europe			6.6	9.6

Sources: OECD, *Historical Statistics*; *Statistical Yearbook of Yugoslavia*, 1981, 1983.

A reinforcement of domestic competition clearly calls for a better use of the existing legal framework and, whenever needed, new initiatives. In this context, it is difficult to understand why the anti-monopoly Law of 1974 has in effect never been used⁵⁷. The trend towards competing income redistribution among regions should also be checked by allowing market forces to operate at the national level. This implies, among other things, that the responsibility of regulating prices should no longer rest with republics (and provinces).

Further significant changes in the income determination system may also have to take place if the present inflationary spiral is to be rapidly unwound. So far, criteria for the distribution of income have mainly put the emphasis on the allocation of net enterprise income between the wage and salary bill and non-wage income (i.e., accumulation, interest payments,

etc.), without however much influence on nominal developments. While this mechanism has been relatively successful recently in bringing about a needed reduction in real personal incomes and in promoting enterprises' savings, it has done so within a context of high and accelerating inflation. Measures taken in 1984 to impose limits on personal income payments of enterprises making losses or not meeting their foreign debt obligations are welcome steps. But the overall impact of such arrangements will necessarily be modest since they only apply to a relatively small number of enterprises. The new compact on "unified (i.e. national) criteria for the distribution of gross income", recently proposed to Parliament, should contribute to promoting a more adequate pattern of resource allocation (more saving and investment, less consumption). It does not, however, address the fundamental weakness of the present income determination system, namely the lack of control on nominal income developments. In the present anti-inflationary strategy this task is predominantly left to aggregate demand management policy and to market forces. In present circumstances, greater efforts should, however, be made to gain better control over nominal income developments.

Income distribution, resource allocation and financing problems

Income distribution policy until the end of the 1970s favoured consumption (personal, collective and general) at the expense of enterprises' accumulation (savings). This took partly the form of a steady decline in the depreciation rate of fixed assets from 6.5 per cent in 1970 to 4.9 per cent in the period 1977-1980⁵⁸. In spite of the low and declining level of domestic accumulation, the share of fixed investment rose to a peak of 35 per cent of GDP at the end of the last decade. This was made possible by the widening external indebtedness, rising workers' remittances and soft domestic financing conditions, (highly negative real interest rates and abundant bank credit). In a context of external shocks and weak international environment, relatively rapid growth coupled with such a pattern of income distribution and resource allocation was bound to lead to unsustainable internal and external disequilibria. As noted in Part I of the draft Survey, the stabilization policies pursued since the end of 1980 have gone some way towards correcting macro-economic imbalances and establishing a better balance between domestic savings and investment. A non-negligible shift in the pattern of income distribution has taken place. However, this has been attained in a context of stagnant activity, high and accelerating inflation and a marked fall in real personal incomes and fixed investment. A major challenge in coming years will be to maintain an appropriate pattern of income distribution and resource allocation, while removing administrative controls and achieving stable non-inflationary growth, together with an increase in the standard of living.

In this context, the current balance sheet position of Yugoslav enterprises must be further strengthened. As noted, due to rising interest payments, the recent improvement in the net accumulation ratio has been more modest than suggested by the movement of gross accumulation. The rate at which the economy's fixed assets are written off should be increased, and a new revaluation through inflation cost accounting should take place. Enterprises should also discontinue the practice of inflating their income through over-valuation of working capital (in terms of inventories)⁵⁹ and inclusion in their balance sheet of uncollectable receivables⁶⁰. A rise in the self-financing ratio of enterprises is all the more desirable since past excessive reliance on bank credit and foreign debt is being reduced. A strengthening of enterprises' balance sheet position, together with the proposed new criteria for the distribution of gross income and the selection of new investment projects could not but contribute to establishing a more efficient allocation of resources. The move towards more

Table 26. **Distribution of enterprise income**

	1980	1981	1982	1983
Net average earnings	33.6	33.8	32.5	30.0
Fringe benefits	8.7	6.2	5.6	5.0
Net personal earnings	42.3	40.0	38.1	35.0
Collective consumption	16.7	17.7	16.9	16.2
General consumption	3.3	2.8	2.4	2.2
Other legal obligations ¹	2.3	2.3	2.6	2.7
Resources allocated to funds for public consumption	22.4	22.8	21.9	21.1
Depreciation	10.6	10.2	13.0	13.0
Business funds	12.9	14.3	12.7	12.3
Reserve funds	2.2	2.6	2.5	3.2
Interest payments	7.3	7.8	9.2	12.7
Other ¹	2.4	2.3	2.6	2.7
Gross saving	35.4	37.2	40.0	43.9
Total income of enterprises	100.0	100.0	100.0	100.0

1. Other legal obligations in Yugoslav statistics include both genuine saving and taxes. Accordingly this item has been arbitrarily split into two equal parts and has been distributed between Resources allocated to funds for public consumption and Gross saving.

Sources: Direct communication to the OECD.

realistic real interest rates should also help, although determination of their appropriate level and length of the transition period necessarily raises difficult problems.

There is no doubt that positive real interest rates have to be rapidly established. However, a too rapid change from highly negative real lending rates to high positive ones may negatively affect financial flows and real activity. Since most lending rates for old loans are fixed (and, therefore, will remain strongly negative in real terms) raising interest rates on all deposits by a few percentage points above inflation imply that interest rates on new loans will all have to be raised proportionately more than deposit rates⁶¹. Excessive positive real lending rates may have a strong negative effect on investment. By raising substantially over a relatively short period of time enterprises' financial charges, inflationary pressures may be heightened. Even with a lengthening of the transitional period, disruptions may be difficult to avoid if real interest rates get out of line with the average rate of return in the economy as a whole. The latter cannot be realistically expected to be raised considerably in the short-run because of structural obstacles and slow productivity growth. The possibility of raising interest rates on old loans may also be investigated. This would permit a narrowing of the differential between deposit and lending rates on new loans. At any rate developments will have to be closely monitored and some flexibility maintained in the practical implementation of the policy.

Ensuring a more efficient use of financial resources and promoting their inter-regional mobility would seem to call for the creation of a capital market adapted to the specific institutional set-up of Yugoslavia. This implies among other things an enlargement of the base for financial intermediation, through: greater mobility of funds between banks; an extension of their territorial activities; a reduction of pressures exerted by socio-political communities and enterprises. Although the scope for issuing bonds was expanded by the 1971 and 1972 laws on securities, bond issues have remained very limited. They have been mainly used for financing the budget deficit and a number of infrastructural investments (ports, railways etc.). Provided inflation comes back to more acceptable levels, greater reliance on bond issues by enterprises could be envisaged. Overall, obstacles are not such that a proper capital market could not be created. However, its efficient functioning would probably require the

establishment at some stage of a fully fledged national foreign exchange market (see following paragraphs). It is also to be hoped that the new Law on joint ventures expected to be passed by Parliament before the end of the year will induce a greater number of foreign firms to go into co-operative ventures with Yugoslav counterparts. Some of its provisions such as stipulation of a productivity clause and removal of limits on foreign equity holding, profit rates and repatriation of profits, are definitely more attractive than provided for in the 1978 Law. However, it will be important that partners in joint ventures do not include restrictive clauses (such as obligatory purchases of raw and intermediate materials, ban on exports of products manufactured by imported technology etc.) which was too often the case in the past.

Foreign exchange management system

As stressed in earlier OECD Surveys, the regional approach prevailing until mid-1982 under the decentralized system of foreign exchange management introduced by the major institutional changes of 1977-78 led to a misallocation of scarce foreign exchange resources. This was aggravated by emergency administrative measures dictated by the need to reduce immediate pressures on the balance of payments, as well as the large share of trade on a bilateral basis. Overall, balance of payments developments tended to be the result of the passive aggregation of regional balances and foreign exchange positions, without much attention being paid to national priorities and constraints. Inter-regional flows of foreign exchange were supposed to take place on a voluntary basis, through sales on the foreign exchange markets by exporters and through interbank transactions. In the event, the system led to increased fragmentation with widespread hoarding of foreign exchange by local BOALs and a sharp decline in inter-bank foreign exchange markets.

The temporary measures taken in May 1982 (cf. Annex) paved the way for the more fundamental changes introduced in January 1983. These marked a clear, albeit insufficient improvement. By shifting the focus for foreign exchange management away from the regional system towards a more integrated sectoral approach, a move towards lifting some of the obstacles to the establishment of a unified foreign exchange market was made. Emphasis was placed on national balance of payments projections and priorities (notably, external debt repayment). Surrender requirements were introduced, earmarking a fixed proportion of foreign exchange earnings for national purposes. The rest was to be allocated among enterprises for various specific purposes determined through federal unified criteria. Any remaining surplus was to be sold to the banking system. The new system reflected a distinct effort to reduce fragmentation of the foreign exchange market, discourage foreign exchange hoarding and increase the volume of interbank transactions. The banking system was also given greater responsibility as regards allocating foreign exchange and assuring the servicing of external debt. However, this system was very complicated and in the event, the foreign exchange market remained inoperative throughout most of 1983. Because of administrative delays and other difficulties, the economic groups (activities), which were to be formed by enterprises to implement the system, were still not created by the end of 1983⁶². Foreign exchange allocation was therefore determined by ad hoc arrangements.

Despite important simplifications introduced in early 1984, the basic features of the 1983 system have not been fundamentally altered. Foreign exchange resources are still allocated along three main channels:

- The needs of the Federation (met by the replacement of the earlier complicated system by a uniform surrender requirement of 44.1 per cent) and those of republics and autonomous provinces (10 per cent);

- The so-called socially verified needs of enterprises (SVRNs), formulated within the framework of associations on the basis of uniform criteria (in line with those defined in 1983);
- The unified foreign exchange market, supplied by the remaining portion of foreign exchange not surrendered to the NBY (and to republics and provinces) and not absorbed by enterprises' SVRNs.

So far the surrender system to the National Bank of Yugoslavia and the republics (and provinces) would seem on the whole to be functioning in a relatively smooth way. But the unified foreign exchange market remains extremely narrow, due to: the large share of foreign exchange resources absorbed by socially verified needs; hoarding of foreign exchange by enterprises exempted from the general surrender requirements (special forms of trading arrangements such as border trade); and various technical difficulties. Overall, there is clearly a need for a rapid broadening of the unified foreign exchange market and for further simplification of the system. More generally, it is difficult to see why radical changes could not be introduced with a view to establishing a proper unified foreign exchange market ensuring a more rapid circulation of foreign exchange resources and their more efficient use⁶³.

IV. CONCLUSIONS

The stabilization measures introduced since 1981 to cope with large internal imbalances, heavy external deficit and serious overseas debt financing problems have started to produce encouraging results. Progress has been made in correcting the pattern of income distribution and achieving a more efficient allocation of resources. This has been reflected, among other things, in a significant reduction in the size of the public sector in the economy and a substantial shift of resources to the external sector. As a result, the budget deficit has been eliminated and the current balance with the convertible currency area has moved into substantial surplus. Owing to this improvement and to financial support provided by the International Monetary Fund, the World Bank, the Bank of International Settlements, a number of OECD countries and a consortium of foreign commercial banks, debt financing problems have remained under control. Short-term stabilization policies have therefore been successful in dealing with the most pressing problems. However, the cost of adjustment has been inevitably high, with a substantial drop in living standards, a marked fall in fixed investment and rising unemployment to some 10 per cent of the labour force. Another unfavourable and worrying development, in the context of large economic slack and falling real incomes, has been the high and accelerating rate of inflation to a level (around 55 per cent) far exceeding that prevailing in most OECD countries.

1985 should be a year of consolidation, allowing the country to enter a new phase of its long adjustment process. The scope for raising living standards and providing greater employment opportunities in coming years will depend on the resumption of sustained non-inflationary growth. This implies bringing inflation down to more acceptable levels; further improving the pattern of income distribution; achieving greater efficiency in the allocation of resources; removing the widespread institutional and structural obstacles to growth. These general objectives underlie the strategy adopted by the Yugoslav authorities to improve economic performance over the medium-term. They are reflected in the projections contained in the guidelines for the new Medium-Term Plan and the draft version of the

Long-Term Plan. Many of the associated structural issues have been discussed in the Long-Term Stabilization Programme adopted in 1983. Abstracting from developments in the international economy, much will depend on the speed, range and nature of the measures that can be taken to translate into concrete action the firmness of purpose demonstrated so far by the authorities.

Prospects for rapidly unwinding the current inflationary spiral are not very promising. Maintenance of the existing relatively low level of aggregate demand should help. Nevertheless, interactions between the existing price and income determination system, exchange rate and interest rate policies are such that, in conditions of persisting inflationary expectations and widespread impediments to the operation of market forces, risks of continued high inflation cannot be excluded. Too often in the past, the inflationary momentum was not properly assessed. Policies were based on unrealistic price projections, which complicated their implementation and led to undesirable consequences. In view of these considerations, the fight against inflation must retain utmost priority.

A more effective anti-inflationary strategy would seem to call for more determined efforts to ensure moderation in nominal income developments. This may require a better reconciliation between the various policy aims and instruments.

- i)* It should be understood that the nominal level at which changes in real income and output are taking place is not irrelevant for overall economic performance. In general, the lower nominal income developments are, the greater the chances to achieve over the medium-term sustained output growth and rising living standards.
- ii)* A main aim of exchange rate policy must be to maintain an adequate level of external competitiveness. Negative implications on the general price level of exchange rate developments must nevertheless be closely monitored. In this context, more refined mechanisms for measuring changes in external competitiveness would seem to be called for.
- iii)* There is no doubt that real interest rates must be rapidly increased to positive levels. It would seem important however, to ensure that the adjustment mechanisms adopted do not result in an excessive increase in enterprises' financial burden, nor lead to additional distortions. Due attention should also be paid to the low real rate of return of the economy.
- iv)* Better control of monetary and credit developments would be desirable. In a context of persistently high inter-enterprise credit, observance of the official monetary targets can only play a limited role.

But structural imbalances must also be tackled at their source, if inflation is to be permanently reduced and sustained growth restored. As analysed in Part III of the Draft Survey, a major problem in Yugoslavia's case is that market forces have not so far operated efficiently. This has been reflected in numerous impediments to the free flow of capital, goods and services inside the national economy. As a result, regional segmentation has tended to increase at least until recently. This has led to lack of domestic competition, reduced economies of scale and specialization with adverse effects on efficiency and costs, and widespread distortions in the productive structure – the latter development also related to the serious external constraint confronting the country. The important measures introduced over the last two years or so should go some way towards creating conditions for more sustained and balanced growth. These cover an adjustment of the real exchange rate, a move towards a more realistic level of real interest rates, a partial correction of the distorted pattern of domestic relative prices, a new foreign exchange allocation mechanism and the introduction of unified

income distribution criteria. Greater liberalisation of the price formation process is also currently underway and procedures for a better screening of investment projects are being established. Nonetheless, further changes in the framework of policy formation are needed to achieve greater flexibility and efficiency of the economic system. As stressed in the Long-Term Stabilization Programme, this implies a further marked departure from earlier practices and institutional mechanisms.

In addition, more effective mechanisms must be devised to carry out national policy objectives thus overcoming the problem of disparate and sometimes conflicting interests of individual republics and provinces. In this context, some of the institutional arrangements, or at least the way they have functioned so far clearly failed to meet the requirements of the situation. Moreover, in a system of decentralized decision-making, market mechanisms will have to play a greater role. There is in particular need for greater mobility of capital and more rapid circulation – and efficient use – of foreign exchange resources. Obstacles are not such that an adequate capital market adapted to the specific institutional set-up of Yugoslavia cannot be created. This would imply among other things an enlargement of the base for financial intermediation through greater mobility of funds between banks; an extension of their territorial activities; a reduction of pressures exerted by socio-political communities and enterprises. The present unified free foreign exchange market is so narrow that it remains largely inoperative. A broadening is clearly needed together with a further simplification of the system.

In spite of the progress achieved so far and the measures already taken, the larger part of structural adjustment still lies ahead. This will call for the pursuit of steady and consistent policies over a prolonged period. It will also require clear understanding by the various parties involved that a smooth and efficient economic functioning of a federal union implies a relatively large degree of specialization among its individual members, according to comparative advantages dictated by resource endowments. It is only by maximising the welfare of the Yugoslav society through sustained balanced growth of the national economy as a whole that an increase in living standards in all republics and provinces will best be guaranteed over the medium-term. Financial support by the international community has been a key external element of the stabilization programme. It is important that proper arrangements continue to be devised providing adequate medium-term solutions. It is also to be hoped that the new Law on joint ventures expected to be passed by Parliament before the end of the year will induce a greater number of foreign firms to go into co-operative ventures with Yugoslav counterparts, thus over time helping to improve the efficiency of the Yugoslav economy.

NOTES AND REFERENCES

1. For detailed analysis of structural developments after the first oil shock see OECD Economic Surveys of Yugoslavia, May 1981, pp. 19-32 and May 1983, pp 8-10.
2. Economic Resolutions are normally consistent with the Medium-Term Plan and incorporate the Plan's objectives and policy recommendations. The 1981-85 Plan was, however, superseded by events and was quietly dropped.
3. According to Yugoslav concepts, national income (as well as income of the enterprise sector) is distributed between net personal earnings (including fringe benefits), resources allocated to social welfare funds and to government consumption, and finally direct savings. Direct savings is defined to include amortization, funds for investment purposes, reserves and other sums directly assigned to investment projects. Fringe benefits such as meals, transportation, holidays, loans for housing construction etc. are paid by enterprises and are called "Collective consumption of OALs" (enterprises). Enterprises pay directly all social security charges for health, pensions and social welfare. They also contribute to funds for education, cultural activities, etc. These payments are classified under collective and general consumption. According to Yugoslav concepts gross saving is called gross accumulation. It includes depreciation, additions to reserves, funds set aside for interest payments, operating capital etc..
4. Stockbuilding in Yugoslavia has always been excessively high but the figures shown in Table 3 may exaggerate the genuine inventory accumulation. The contribution of stockbuilding to GDP is smaller and/or GDP rose slightly less than shown in the official statistics (see the Technical Note on "Changes in Stocks", pages 51 and 52, OECD Economic Survey on Yugoslavia, May 1983).
5. Since total fixed investment by private sector enterprises is a relatively small item, its positive rate of growth had a marginal impact on overall fixed investment.
6. Net personal earnings are defined to include net average earnings and fringe benefits (collective consumption in enterprises).
7. Inflation is measured here by consumer prices (cost of living according to Yugoslav definitions), which on an annual basis usually registers the same percentage change as the private consumption implicit price deflator.
8. See: OECD Economic Survey on Yugoslavia; July 1982 pp. 17, 37, 38,; May 1983 pp. 15, 16, 44.
9. The period was characterized by many changes in price regulations and shifts of products from one category to another. For example, the responsibility for control of a large number of prices was shifted back and forth from the federal to the republican (regional) "Communities for Prices" with the imposition of temporary price freezes followed by spurts of strong price rises. Moreover, a number of products whose prices were freely determined by individual enterprises (or groups of enterprises) were moved to the category where prices are fixed or regulated by the federal or regional authorities and vice versa.
10. Only in exceptional cases when inflationary pressures reached dangerous levels severe measures to cope with nominal income developments were introduced.
11. The real effective depreciation may have added 6 percentage points to inflation in the two years to end-1983. However, because of a small real effective appreciation in the year to mid-1981 the real effective depreciation of the dinar between 1980 and 1983 was considerably smaller than between mid-1981 and end-1983. As a result, the total (direct and indirect) impact on prices from the real effective depreciation did not probably exceed 9 percentage points in the three years to end-1983.
12. The allocation of foreign exchange receipts has been severely controlled since 1980.
13. Exports on a clearing basis increased a little allowing to switch imports of oil from the convertible currency area to imports on a clearing basis. The share of oil imports paid in convertible currencies fell from 56 per cent in 1980 to 52 per cent in 1982 and 43 per cent in 1983.

14. As measured by the difference in the relative movement of consumer prices in Yugoslavia and its main competitors, adjusted for exchange rate changes.
15. Power cuts had to be enforced because of oil saving measures and a long drought which had reduced generation of hydro-electricity.
16. Reference to monetary policy in the text also covers credit policy, unless otherwise stated.
17. Net Domestic Assets (NDA) became the principal monetary target in 1983. NDA primarily reflect the liability side of the banks' balance sheets. Money supply broadly defined (M3) accounted in 1983 for about four-fifths of NDA and net foreign liabilities for the remaining one-fourth.
18. Credit to less developed regions, to exports and to agriculture (mainly for stockbuilding) are exempted from the monthly credit ceilings. Since they concern only relatively limited amounts they are not expected to affect in any significant way total domestic credit developments.
19. Selective credits (which are not included under the ceilings) also rose significantly because of export credits associated with the strong rise in exports.
20. The valuation effect is defined as the rise in the dinar value of foreign exchange deposits and of other foreign exchange liabilities resulting from the depreciation of the dinar.
21. The agreement provides for step increases in interest rates starting in May 1984, with further adjustments in July and October 1984, and January and 1 April 1985. The target for 1 April 1985 is to have 1 percentage point real interest rate on time deposits up to 3 months, 5 percentage points on time deposits up to 1 year and 7 percentage points on time deposits up to 2 years.
22. The weights of individual currencies were initially calculated on the basis of the share of the selected currencies in Yugoslavia's foreign exchange transactions. In 1984 this weighting system was abolished and replaced by weights of manufactured export shares between 1980-82. These weights are applied to changes in producer or wholesale prices of Germany, Italy, US, France, Austria, Switzerland and the UK.
23. Because of the absence of competing countries (e.g. Spain, Greece, Portugal, NICs etc.) and the use of producer or wholesale price indices in calculating the real effective exchange rate the latter does not pretend to be very precise but only to show broad orders of magnitudes and the direction of change.
24. Since the indexation mechanism is backward looking, when inflation accelerates real benefits are automatically falling.
25. It seems that about one-fourth of registered job-seekers are actually employed but wish to change jobs.
26. Data on value, volume and average value of trade as well as on invisible items are subject to a wide margin of error. Imports and exports are converted into dinars by using a fixed exchange rate prevailing at the beginning of each year. The subsequent conversion in US dollars is also done at a fixed exchange rate prevailing at the beginning of the year. As a result, cross rates are also stable during the year and, are consequently out of line with foreign exchange fluctuations in international markets. For more details see Technical Notes, page 51, OECD Economic Survey of Yugoslavia, May 1983.
27. There have always been strict regulations for the repatriation of foreign exchange earnings by enterprises. However, there were many exemptions and rules were in general not observed. In 1984, the authorities decided to enforce these regulations more strictly and to reduce the number of exceptions. Whereas up to now, successive postponements for repatriation were granted, from now on only one delay is allowed not exceeding 60 days. Moreover, enterprises failing to repatriate foreign exchange earnings on time will no longer be eligible for bank credit. They will not be allowed to include foreign exchange receipts in their income and will not receive tax refunds on their exports.
28. The Winter Olympics in Sarajevo contributed to the increase in tourism in the first six months of the year but tourism to the Dalmatian coast has also risen considerably since the early summer.
29. Over the medium-run, further reductions in net emigrant transfers may occur reflecting the downward trend in the number of Yugoslavs working abroad.
30. The rise in administered prices (principally energy and fuel, railway tickets, fees, commercial services, cigarettes and health) may have contributed to about half of the 7 per cent increase of the cost-of-living in December 1983. Increases in certain administered prices which took place towards the end of December were reflected in the January 1984 index.
31. Strict and centralised control on prices was imposed in the 12 months to mid-1983.
32. Following the lifting of the price freeze, companies were subjected to the obligation of giving a prior notice of 30 days before being allowed to raise their prices.

33. The sectors and/or products and services under direct control are energy, transport and communications, basic food, cigarettes and a few raw materials.
34. Negotiations for the determination of common criteria which would make possible the adoption at the national level of a "social compact" on income distribution have been going on for almost two years.
35. This measure will not apply to enterprises which incur losses because prices are fixed administratively to "artificially" low levels.
36. At the time of writing the draft Economic Resolution was discussed in the Federal Assembly. The objectives of the Economic Resolution when voted by the Federal Assembly may diverge somewhat from those in the draft Resolution.
37. The normal procedure for revising the 1981-1985 Medium-Term Plan started in 1982. It was, however, abandoned in 1983 once it became evident that actual developments were departing markedly from initial projections. Because of lack of resources, continuation of the revision process would have jeopardized the implementation of the Long-Term Stabilization Programme.
38. Implementation of the Long-Term Stabilization Programme adopted in July 1983 is expected to take place in three stages.
 - *During the 1984-1986 period* major short-run imbalances should be corrected.
 - *During the 1986-1990 period* (corresponding to the medium-term plan with one year overlap) conditions for steady, balanced and relatively fast economic growth should be created through successful completion of structural changes.
 - *Finally in the years 1991-2000* the long-term objectives of the society should be attained such as a significant rise in living standards and energy self-sufficiency.
39. As measured by the ratio of the investment share to the growth rate of the economy.
40. According to plan projections, repayment of principal and interest charges should represent one fourth of export receipts by 1990 and one fifth by the year 2000.
41. Namely electric energy, ferrous metallurgy, non-ferrous metallurgy, basic chemicals, machinery and metal products, cement etc.
42. Following the introduction of a new constitution in 1963 and a series of economic measures taken between 1964 and 1967 (the so-called economic reforms of 1965) the earlier Yugoslav system of economic management based on a much greater role of the Federal State was substantially changed. (For more details see earlier OECD Economic Surveys of Yugoslavia). The powers of republican, regional and local authorities and institutions were further enhanced by the 1974 Constitution. A number of economic, social and political reforms were also introduced in line with the constitutional reform. As a result new institutions and arrangements were gradually set up in the late 1970s and the early 1980s.
43. See: Yugoslavia: Export Performance and Policies, IBRD, Report No. 2972-Yu, 16th October 1980; Yugoslavia: Adjustment Policies and Development Perspectives, IBRD, Report No. 3954-Yu, 2nd November 1982, Volume 1, pp. 6-7.
44. Basic Organizations of Associated Labour (BOALs) are the smallest operating units producing a marketed or marketable output. The enterprise (or Complex Organizations of Associated Labour (COAL)) is a voluntary association of BOALs linked together through contractual relations by mutual self-interest.
45. See Politika - 18th September 1984
46. See Yugoslav Survey - May 1984, vol. XXV, No. 2, p. 75.
47. "Social compacts" are general instruments designed to manage economic interests common to all republics and provinces or to deal with issues which require a national solution.
48. At least implicitly, if not explicitly, economic regionalism was one of the key features of the development strategy adopted. The aim was to develop the economy on a regional basis, through the expansion of processing industries. But this strategy has proved difficult to reconcile with the working of market mechanisms.
49. Amendments to the foreign exchange Law were made in January 1983 and early 1984. These shifted the focus of foreign exchange allocation toward a sectoral approach. Part of foreign exchange continued however to be allocated to republican and provincial purposes.
50. Some social compacts were successful but others which should have been concluded have never been negotiated; some other ones have been ratified with such delays that the initial project for which they had been intended could not be carried out because of changing circumstances. Compacts which were signed in time were generally of such a broad nature that detailed arrangements were often not finalized.

51. See: K. Mihailovic, *Association of Labour and National Economies*, *Marksisticka misao*, No.4, 1982; S. Ostojic, *Self-managed Agreements and Market Economy*, *Samoupravljacka iskustva* No.3/1981; Z. Popov, *the Behaviour of Economic Subjects and Investment Financing*, *Marsisticka misao*, No.4, 1984.
52. See: Lj. Kedzic and M. Besevic, *Inter-republican Flow of Goods and Services*, *Ekonomska misao*, No.3 1983; S. Ostojic, *BOALs, Republican Economies.....*, 1982, *op. cit.*
53. See: C. Ocić, *The Autarchy in Yugoslav Economy*, *Marksisticka misao* No.2, 1982, p. 74; *An Assessment.....*, 1984, *op. cit.* pp. 90-105; C. Ocić, *The Processes of Integration of Disintegration of Yugoslav Economy*, *The Institute of Economic Studies, Belgrade*, 1982. See: Also an Assessment , 1984, *op. cit.* pp. 92-98; S. Ostojic, *BOALs, Republican Economies and Integral Market*, *Ekonomska misao*, No.3 1982.
54. Recognition of priority status was generally enough to secure access to investment finance within republics and provinces.
55. Banks are self-managed financial organizations serving the interests of its members by providing the financial resources in order for them to develop their activities. The members of the banks are enterprises (BOALs and OALs), self-managed communities of interest and other social legal entities with the exception of socio-political communities (political organisations, federal, republican, regional and local governments). Bank activities are governed by its members. This means that banks are dominated principally by enterprises, which usually provide the biggest part of the capital. The lack of independence vis-à-vis the enterprises is aggravated by the fact that banks are mainly regionally based. Moreover, as local authorities tend to support local activities and employment they encourage banks to extend credit, thus also contributing to the erosion of financial discipline. There are 164 basic banks, nine associated banks and many internal banks within individual enterprises or groups of enterprises – the latter have limited activities. The central bank is composed of the National Bank of Yugoslavia at the Federal level and eight National Banks from the six republics and the two autonomous provinces.
56. Among the most well-known examples, in the food-processing industry eight sugar refineries were constructed at the end of the 1970s located in nearly each of the republics and provinces. The same process took place in the construction of slaughter-houses, although transporting livestock across republics would have been less costly. Each region has also given priority to developing its own sources of electric power generation, even if cheaper input sources could be found in another republic's territory. The establishment of five plants producing five makes of cars and seven refineries operating at about one-half capacity are also striking examples. But duplication of investment facilities has also taken place in certain branches of the pharmaceutical industry or the ready-made cloth sector. The economy as a whole continues to bear the cost of this misallocation of investment resources, as evidenced by the low rates of capacity utilisation in these sectors.
57. See *Politika*, 15th April 1984, p.10. Statement made by the State Secretary of the Federal Secretariat for Finance.
58. The length of the depreciation period increased by one-third i.e. from 15.4 years in 1970 to 23.6 years in 1980. After the 1981 revaluation of fixed assets it was still amounting to 21.7 years – a very long period indeed for writing off fixed assets. For more details see *Yugoslav Survey*, May 1984, Vol. XXV, No. 2., *Yugoslavenska Stvarnost*.
59. According to the data from annual balance sheets for 1982, the value of the economy's inventories was much larger than suggested by the movement of the physical volume of stocks and the movement of prices.
60. There should be provision for doubtful debt.
61. Interest rates on new loans will have to be raised considerably so that interest receipts of banks cover not only interest payments to depositors and the cost of banking services but also the sizeable subsidies to past loans resulting from large fixed negative real interest rates.
62. By the end of 1983 only eight groups had been formed.
63. It should be noted that the government will have to present to the Federal Assembly proposals for a new foreign exchange allocation system by 1st April, 1985, in line with the recommendations of the Stabilization Programme.

CHANGES IN FOREIGN EXCHANGE REGULATIONS

The pace of reform of the foreign exchange allocation system has accelerated in Yugoslavia since mid-1982, with a view to achieving a more efficient use of foreign exchange resources and making progress towards a convertible dinar. However, despite substantial amendments the basic legal framework for foreign exchange transactions still remains the Law on Foreign Exchange Operations and Foreign Credit Relations enacted in March 1977 and in effect since 1st January 1978.

The principles of self-management and decentralization, which were at the core of both the 1974 Constitution and the 1976 Law on Associated Labour are incorporated in the three laws that were passed by the Federal Assembly in March 1977, regulating import-export practices, external activities by Yugoslav enterprises and foreign exchange transactions and indebtedness policy. Under this new legal framework, "foreign exchange belongs to the BOAL that earns it" and the old surrender requirements (amounting often to two fifths of foreign exchange receipts) were eliminated, resulting in a decentralization of the system, less involvement at the Federal level and more discretionary power at the republic, local government and enterprise level. The Law on Foreign Exchange provided for the establishment in each of the republics and autonomous provinces of a self-managing community of interest for foreign economic relations (CIFER) and for their association at the federal level in the Yugoslav CIFER, within which they coordinated their activities. Membership was obligatory for all economic agents involved in regular transactions with foreign countries or otherwise having foreign exchange at their disposal. These regional communities of interest (CIFER) played a key role in the implementation of policies concerning the right to use foreign exchange. They were acting in fact as auctioneers of bids and offers of foreign currencies at the republican and autonomous region level, through the mechanism of self-management agreements (i.e. contracts) concluded between buying and selling BOALs.

Against the background of foreign exchange shortages and rapidly rising debt service payments, important changes in foreign exchange regulations took place in the course of 1982. The Law on Foreign Exchange transactions and Foreign Borrowing of May 1982 gave priority to settlement of debt obligations and restricted the commercial banks' freedom to borrow internationally, especially for medium and long-term loans (where approval by the National Bank of Yugoslavia, NBY, was needed). Proof by the borrower that the necessary foreign exchange to service new foreign debt obligations would be available was required for approval. On the basis of this temporary law, self-management agreements were concluded imposing the obligation to set aside foreign exchange earnings for debt service payments by republic and autonomous provinces (20.9 per cent) and by the National Bank of Yugoslavia, (15.9 per cent), for payments for oil and other priority imports (17 per cent) and for use by the Federal Government (5 per cent). As a result - because these were minimum percentages, - exporting OALs were generally not able to retain more than 2/5 of their foreign exchange earnings, which reduced considerably their ability to import and their incentive to export. By October 1982 the use of foreign exchange for settling domestic transactions was sharply restricted, or even prohibited. Cash withdrawals from foreign exchange accounts of households, were limited to \$250 per month and measures were taken to discourage travel abroad, border crossings for shopping purposes and imports of personal belongings and gifts. Also payments to diplomats and construction crews working abroad had to be partially settled in dinars.

In the event, the wide array of corrective measures adopted in a decentralised fashion by the regional CIFERs failed to promote the desired inter-regional foreign exchange flows and a situation of chronic foreign exchange shortage developed. The mechanism to induce transfers of foreign exchange from surplus to deficit republics and provinces did not exist at the Federal level, and voluntary sales on the foreign exchange markets by exporters and in interbank transactions were insufficient. Foreign exchange hoarding by individual BOALs, bilateral deals, "pooling" and direct transactions became the response to the malfunctioning of a very fragmented market.

The January 1983 Amendments to the Foreign Exchange Law shifted the focus for foreign exchange allocation away from the decentralized regional approach towards a more integrated approach. A more active role was given to

federal decision centres (NBY and the Yugoslav Chamber of the Economy) at the expense of republican and provincial CIFERs. Emphasis on the fulfillment of a national (i.e. Yugoslav) balance of payments target replaced the former mechanical aggregation of regional foreign accounts. Unlike the pre-1983 system, *uniform criteria* (across republics and autonomous regions) for allocating foreign exchange were laid out in the 1983 Amendments, and the transitory surrender requirements put forward in May 1982 were made a permanent and crucial feature of the new system. Thus a fixed portion of foreign exchange earnings was to be set aside¹ for federal needs (such as external debt repayments by federal agencies and organisations and the National Bank as well as for the purpose of rebuilding foreign exchange reserves) and channelled through the National Bank of Yugoslavia (NBY). For 1983 it was set at 58.8 per cent. Furthermore, a part of the non-surrendered foreign exchange receipts was to be "withheld" by the earning BOAL in order to allow it to conduct its normal foreign transactions. The precise use of these withheld transaction balances² was to be determined within the framework of groups of BOALs ("activities")³ according to uniform criteria adopted by the Yugoslav CIFER in co-operation with the Yugoslav Chamber of the Economy. The remaining foreign exchange over and above the surrendered portion (to the NBY) and the withheld (within "activity") one was to be sold on the unified foreign exchange market.

Unfortunately a key element of the system failed to work properly. By the end of 1983, only eight groups of enterprises had been formed due to a lack of precise understanding of the meaning and content of these "activities". As a result, during 1983 foreign exchange was allocated basically along the lines defined in the 1977 Law on Foreign Exchange Operations, i.e. governed by ad hoc self-management agreements within the regional CIFERs, as well as on the basis of interim arrangements established by the Uniform Criteria laid down by the Yugoslav CIFER and Chamber of the Economy. The free portion of the foreign exchange market remained inactive and bilateral transactions between enterprises at premium rates became the norm. Only the servicing of external debt which was the sole responsibility of the banking system, under the Law on Payments in Convertible Foreign Exchange (the so-called "Law of Circles") adopted in July 1983, went on working smoothly.

In order to promote the mobility of foreign exchange resources a considerable effort to simplify the complicated surrender requirements scheme of 1983 was made. To this end further amendments to the Law on Foreign Exchange Operations were introduced by the Federal Assembly at the end of the year. The direct surrender tranche (58.8 per cent) which was made up of the aggregation of quantified specific needs was replaced by a uniform surrender requirement of 44.1 per cent of export receipts⁴ to be channelled to the NBY, plus an additional amount (not exceeding 10 per cent of export receipts earnings) to be locally allocated within republics and provinces. Thus exporters were in principle required to surrender up to 54.1 per cent of their export earnings. No precise guidelines concerning the allocation of the uniform surrender requirement were specified. The remaining 45.9 per cent could be kept by the earning BOAL up to its "socially verified reproduction needs" (SVRN) determined by its imports and debt repayments obligations. The left-over portion above SVRN would have to be sold within two days of receipt to an authorised bank, providing one of the sources of foreign exchange funds to the unified foreign exchange national market. Conversely, those BOALs whose SVRN exceeded 45.9 per cent of their export earnings would, after surrendering a maximum of 54.1 per cent of export receipts, go to the unified national market to purchase the difference. In order to discourage temporary hoarding of foreign exchange, BOALs were provided with a more clearcut associative framework within which to formulate their estimated SVRNs. Instead of the loosely defined "activities", BOALs had to enter one of two forms of "associations": either general associations, of which the Yugoslav Chamber of Economy recognised 22, or special associations putting together vertically integrated large commercial conglomerates of which 12 already existed by the end of April 1984.

The total SVRN of each association was calculated on the basis of a formula contained in the 1983 Uniform Criteria. The major determinants were the ratio of 1983-84 outstanding debt obligations to 1983 exports and the average import (excluding equipment)/export ratio for 1982-83. The aggregate SVRNs for all 34 associations (i.e. their own demand for foreign exchange) had then to be made consistent with balance of payments projections for the year. Lastly the SVRNs of each association had to be allocated among individual BOALs, on the basis of self-management agreements taking into account their mutually individual production and export-import plans. In practice, such agreements proved difficult to reach and the Uniform Criteria formula was applied to individual BOALs debt and trade data. Overall, the part of the market supplied by the 54.1 per cent channelled through the NBY and to the republics would seem to have functioned well so far despite the increase in the value of exports exempted from direct surrender (i.e. border trade, barter arrangements, counter-trade and long-term co-operation agreements). The proliferation of these "special trade agreements" also led to the reduction of BOALs supply of foreign exchange to the "free" foreign exchange market (i.e. the 45.9 per cent payment after deduction of SVRNs) which indeed functioned to a very limited extent. Rights to purchase foreign exchange in this market in excess of the 45.9 per cent were very rarely effected. As a result, the level of interbank transactions remained very low both bilaterally and at the interbank meetings (where flows of foreign exchange funds came mainly from the NBY channel).

From a global or aggregated point of view, the malfunctioning of the foreign exchange market was due to a permanent situation of aggregate excess demand. Individual SVRNs were indeed overestimated; it was also implicitly assumed that all Yugoslav exports would be cash transactions subject to the unified surrender requirements. Instead,

special forms of trade (more or less free of surrender requirements) proliferated thus shrinking the potential source of funds to the unified foreign exchange market and providing a mechanism for foreign exchange hoarding by BOALS which should otherwise have been net sellers in the market. Some estimates place the share of all trade not subject to the unified surrender requirements at more than 40 per cent in the first half of 1984, compared with a mere 10-15 per cent in 1981-82. Overstatement of SVRN by not reporting the increasingly widespread commodity credit practice was also a major factor behind the shortage of foreign exchange. It seems that neither the Yugoslav CIFER nor the NBY have the necessary instruments to correct a permanent excess demand for foreign exchange as far as entitlements largely exceed available market supplies. As a result, of the widespread perception of "scarcity" BOALS dealing in foreign transactions tend to withhold their foreign exchange earnings from the market and to seek special forms of trade which economise on cash payments.

NOTES AND REFERENCES TO THE ANNEX

1. Each year the precise amount was to be fixed by an act of the Federal Assembly.
2. A certain amount of earnings could be retained for the purpose of servicing external debt as a function of the ratio of debt obligation due in 1983 to 1982 foreign exchange receipts. For imports of raw material, and spare parts an allocation of 80 per cent of the ratio of non-equipment imports to total exports in 1982 was earmarked. A bonus allowance was allowed whenever export earnings to the convertible area exceeded 20 per cent of total enterprise revenues.
3. "Activities" grouped at the national (rather than a regional) level, those BOALS that co-operated vertically in the final production of exports in an effort to benefit from economies of scale and maximize foreign exchange earnings for the group as a whole. The number and composition of these groups was to be decided by individual BOALS under the guidance of the Yugoslav Chamber of the Economy.
4. After attending to the needs of the Federation, the international reserve and debt repayment needs of the NBY and import payments for essential raw materials and energy related products. Whatever would be left from the 44.1 per cent of foreign exchange receipts would flow to the national unified market.

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STATISTICAL ANNEX

Table A. Social product (Yugoslav definitions and concepts)

Millions of dinars

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 ¹
Current prices											
Consumers' expenditure	137 025	168 877	220 187	275 283	326 191	397 837	487 200	622 447	818 829	1 143 300	1 510 662
Collective consumption	21 286	26 708	35 962	49 620	60 265	72 556	86 439	110 900	143 060	198 200	260 140
Gross fixed capital formation	73 977	85 502	117 387	163 287	207 283	267 956	357 314	447 581	545 665	684 961	854 816
Change in stocks	14 500	31 957	57 827	44 760	30 286	59 100	28 767	82 209	119 622	239 622	311 166
Foreign balance	-8 024	-14 550	-44 698	-43 606	-25 897	-59 553	-73 768	-118 527	-132 439	-124 726	-144 188
Exports of goods and services	56 026	72 278	95 128	105 231	120 851	129 855	146 929	201 309	382 900	436 144	587 919
Imports of goods and services	64 050	86 828	139 826	148 837	146 748	189 408	220 697	319 836	515 339	560 870	732 107
Statistical discrepancy	6 631	7 832	20 555	13 651	-5 568	-3 592	15 863	20 807	58 352	66 893	134 497
Social product	245 395	306 326	407 220	502 995	592 560	734 304	901 815	1 165 417	1 553 089	2 208 250	2 927 093
1972 prices											
Consumers' expenditure	137 025	140 695	151 030	156 174	163 097	174 595	186 737	197 101	198 481	196 496	196 345
Collective consumption	21 286	22 160	23 774	25 980	28 448	30 553	32 540	34 015	33 670	32 050	31 820
Gross fixed capital formation	73 977	77 074	84 054	92 181	99 689	109 114	120 589	128 293	120 717	108 887	102 500
Change in stocks	14 500	21 344	31 095	19 132	15 380	22 123	9 683	25 300	29 319	41 965	41 400
Foreign balance	-8 024	-14 719	-24 866	-23 556	-9 075	-22 878	-22 521	-36 370	-18 598	-7 289	-4 070
Exports of goods and services	56 026	59 835	60 424	59 346	68 189	64 508	63 991	67 455	74 851	83 982	78 100
Imports of goods and services	64 050	74 554	85 290	82 902	77 264	87 386	86 512	103 825	93 449	91 271	82 170
Statistical discrepancy	6 631	11 130	14 598	19 982	3 652	11 814	20 771	23 798	17 275	14 288	21 046
Social product	245 395	257 684	279 685	289 893	301 191	325 321	347 799	372 317	380 864	386 397	389 041

1. Preliminary data.

Source: Direct communication to the OECD.

Table B. National product and expenditure (standardized definitions and concepts)
 Millions of dinars, current prices

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 ¹
Consumers' expenditure on goods and services	121 722	151 687	187 146	244 100	294 900	351 500	428 950	528 400	672 125	881 140	1 226 437	1 623 803
Government current expenditure on goods and services	36 686	45 290	52 742	74 300	97 900	118 700	147 500	177 200	227 500	290 967	380 850	499 580
Gross fixed capital formation	64 651	73 977	85 502	117 387	163 287	207 283	267 956	357 314	447 581	545 665	684 961	854 816
Change in stocks	21 983	14 702	31 957	57 800	44 600	30 300	59 100	28 767	82 209	119 622	239 622	311 166
Exports of goods and services	42 909	59 206	76 436	101 100	111 200	129 500	136 400	153 220	206 575	383 634	438 177	601 600
less: Imports of goods and services	56 291	64 996	87 951	142 000	150 000	148 800	190 800	221 188	325 232	527 173	571 226	756 200
Statistical discrepancy	3 651	3 296	7 832	20 013	15 313	-5 683	-13 906	-10 994	-16 822	29 843	11 424	23 937
Gross domestic product at market prices	235 311	283 162	353 664	472 700	577 200	682 800	835 200	1 012 719	1 293 936	1 723 698	2 410 245	3 158 702
Income from the rest of the world	10 024	15 411	22 644	26 710	26 773	29 000	34 800	55 570	64 687	115 943	170 096	222 057
Income payments to the rest of the world	2 236	2 818	3 778	4 800	4 273	5 000	6 400	8 300	15 604	34 971	57 520	85 641
Gross national product at market prices	243 099	295 755	372 530	494 610	599 700	706 800	863 600	1 059 989	1 343 019	1 804 670	2 522 821	3 295 118
Indirect taxes	22 041	27 279	29 239	58 070	62 000	71 200	105 300	123 085	163 085	195 332	269 014	339 970
Subsidies	2 790	7 015	8 194	12 280	15 000	10 000	26 100	26 400	34 233	42 894	50 711	79 430
Gross national product at factor cost	223 848	275 491	351 485	448 820	552 700	645 600	784 400	963 217	1 214 167	1 652 232	2 304 518	3 034 578
Depreciation and funds for other purposes	21 180	27 979	36 290	50 840	61 000	70 000	83 600	102 717	128 507	174 746	236 125	374 535
Net national product at factor cost	202 668	247 512	315 195	397 980	491 700	575 600	700 800	860 500	1 085 660	1 477 486	2 068 393	2 660 043

1. Preliminary data.

Source: Direct communication to the OECD.

Table C. Gross product at factor cost by industry

Millions of dinars, current prices

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 ¹
Agriculture, forestry and fishing	43 890	60 277	71 682	83 552	97 463	111 936	112 636	146 842	201 025	304 192	435 433
Mining and quarrying	6 426	7 492	11 113	13 182	14 780	17 360	19 679	24 315	38 544	56 919	77 204
Manufacturing	74 980	94 637	132 331	160 275	180 359	221 395	271 936	343 933	481 113	699 372	917 860
Electricity, gas and water	6 536	8 428	11 526	14 268	17 081	20 562	24 548	31 533	45 030	59 839	79 156
Construction	28 083	32 516	40 247	53 870	63 399	78 786	100 024	128 446	167 770	226 019	271 590
Transports and communication	21 492	26 337	34 464	44 111	50 921	58 892	73 723	97 013	127 239	176 500	227 570
Wholesale and retail trade	32 208	39 342	51 590	62 523	77 072	87 894	111 241	145 390	195 237	264 400	358 622
Banking, insurance, real estate and business and financial services	7 820	10 047	12 724	17 061	20 627	27 334	36 557	43 932	59 881	80 242	107 906
Community, social and personal services	38 134	48 196	60 779	80 752	99 313	131 280	165 603	203 680	255 421	324 459	422 827
Others services	411	432	454	606	585	661	-	-	-	-	-
Gross domestic product at factor cost	259 980	327 704	426 910	530 200	621 600	756 100	915 947	1 165 084	1 571 260	2 191 942	2 898 168
Net payment of income payable to factors of production by the rest of the world	12 593	19 320	21 910	22 500	24 000	28 300	47 270	49 083	80 972	112 576	136 410
Gross national product at factor cost	275 491	351 485	448 820	552 700	645 600	784 400	963 217	1 214 167	1 652 232	2 304 518	3 034 578
Adjustment	2 918	4 461	-	-	-	-	-	-	-	-	-

1. Preliminary data.

Source: Direct communication to the OECD.

Table D. Gross fixed investment
Millions of dinars, current prices

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Total	64 651	73 977	85 500	117 400	163 200	207 300	268 000	357 300	447 600	545 600	685 000	854 800
Private sector	13 335	16 098	22 100	28 200	30 900	36 300	45 700	53 600	71 000	88 500	121 600	166 100
Social sector	51 316	57 879	63 400	89 200	132 300	171 000	222 300	303 700	376 600	457 100	563 400	688 700
<i>By activity:</i>												
Productive	45 684	50 455	57 600	79 600	114 200	146 600	192 500	260 800	319 600	386 300	485 700	603 000
Non-productive	18 967	23 522	27 900	37 800	49 000	60 700	75 500	96 500	128 000	159 300	199 300	251 800
<i>By industry:</i>												
Agriculture and forestry	4 722	5 687	8 282	11 078	12 100	14 700	20 800	26 000	31 500	36 700	51 200	81 800
Industry	21 000	24 250	26 014	38 588	64 000	80 700	98 000	136 000	157 800	199 600	254 600	305 700
Building	1 700	2 015	2 340	3 328	4 000	4 800	9 300	10 900	13 800	14 400	19 300	19 900
Transportation	9 103	9 995	12 803	16 102	21 000	27 700	37 000	52 000	65 900	72 900	81 200	94 100
Trade, catering, tourism	6 985	6 144	5 190	7 218	9 400	10 400	15 900	20 000	28 890	32 200	40 500	49 600
Housing, communal activities	15 332	18 512	23 166	31 145	39 000	48 700	59 800	77 000	103 600	134 200	172 500	231 200
Other social sector	5 809	7 374	7 705	9 941	13 700	20 300	27 200	35 400	46 110	55 600	65 700	72 500
<i>By sector of asset:</i>												
Machinery and equipment	24 705	27 936	33 200	47 000	66 730	86 100	110 900	139 600	167 900	191 600	232 800	296 000
Domestic	13 553	16 400	18 800	27 100	35 530	50 200	64 900	85 600	109 000	125 500	163 700	206 000
Imported	11 152	11 536	14 400	19 900	31 200	35 900	46 000	54 000	58 900	66 100	69 100	90 000
Building	37 622	43 218	47 300	64 600	88 960	110 700	141 300	194 800	249 800	309 400	386 700	479 800
Other	2 324	2 823	5 000	5 800	7 510	10 500	15 800	22 900	29 900	44 600	65 500	79 000

Note: Figures include expenditures for already existing assets and indicate realised investments independent of the dates of payment.

Source: Direct communication to the OECD.

Table E. National income and the household account (Yugoslav definitions and concepts)
Millions of dinars

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
<i>National income:</i>											
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	107 113	128 305	166 050	208 022	253 462	310 075	361 588	451 280	573 256	855 258	1 123 252
Taxes on income and Social Security payments	35 437	42 958	62 334	83 643	108 780	131 681	171 856	206 920	260 005	349 405	454 694
Interest and enterprise taxes	45 879	59 359	71 610	84 307	101 377	131 510	168 429	236 384	306 652	429 382	577 216
Accumulation of productive enterprises and individual producers	32 530	44 927	63 356	78 364	64 839	88 612	111 050	159 419	260 652	369 844	442 908
National income	220 959	275 549	363 350	454 336	528 458	661 878	812 923	1 054 003	1 400 565	2 003 889	2 598 070
plus: Depreciation	24 436	30 777	43 939	48 659	64 102	72 426	88 892	111 414	152 524	204 361	329 023
Social product	245 395	306 326	407 289	502 995	592 560	734 304	901 815	1 165 417	1 553 089	2 208 250	2 927 093
<i>Household account:</i>											
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	107 113	128 305	166 050	208 022	253 462	310 075	361 588	451 280	573 256	855 258	1 123 252
Net wages and salaries of employees in non-productive enterprises	24 149	28 675	37 321	48 294	58 440	74 007	91 644	114 369	140 498	180 354	233 694
Receipts from Social Security and other welfare funds	23 688	30 114	38 329	49 890	63 548	79 102	99 600	127 190	158 549	209 138	284 523
Other domestic transfer receipts	1 067	3 603	4 479	5 749	7 716	11 768	17 434	30 018	41 358	46 982	63 507
Net transfers from abroad	17 403	25 395	29 839	31 248	34 615	37 513	58 582	65 649	110 316	156 156	206 576
Total income received	173 420	216 092	276 018	343 203	417 781	512 465	628 848	788 506	1 023 977	1 447 888	1 911 552
Consumers' expenditure on goods and services of productive sector	122 162	150 477	197 967	249 083	295 351	362 117	447 710	572 842	753 590	1 045 441	1 377 769
Consumption of self-produced commodities	14 863	18 400	22 220	26 200	30 840	35 720	39 490	49 605	65 239	97 859	132 893
Consumer payments to non-productive sector	12 018	15 869	19 836	26 129	34 912	44 069	54 318	69 560	88 382	114 614	152 196
Savings	24 377	31 346	35 995	41 791	56 678	70 559	87 330	96 499	116 766	189 974	248 694
Savings ratio (in %)	14.1	14.5	13.0	12.2	13.6	13.8	13.9	12.2	11.4	13.1	13.0

Source: FSO, Statisticki Godisnjak.

Table F. Agriculture

	Unit or base	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983 ²
<i>Indices of agricultural output</i>		1951-1955 = 100												
Total		187	184	197	209	203	217	227	213	225	225	228	244	239
Crop production		180	179	195	199	193	205	212	186	205	204	206	227	218
Livestock production		194	197	209	235	235	244	263	268	270	273	279	283	277
<i>Production of selected commodities</i>														
Wheat	Mill. metric tons	5.6	4.8	4.8	6.3	4.4	6.0	5.6	5.4	4.5	5.1	4.3	5.2	5.5
Maize	-	7.4	7.9	8.3	8.0	9.4	9.1	9.9	7.6	10.1	9.3	9.8	11.1	10.7
Sugar beet	-	3.0	3.3	3.3	4.3	4.2	4.7	5.3	5.2	5.9	5.2	6.2	5.7	5.7
Meat	Thous. metric tons	880	817	839	1 000	1 031	1 034	1 144	1 237	1 227	1 207	1 221	1 244	...
Forestry cuttings	Mill. cubic metres	17.9	17.3	17.4	18.2	18.6	18.5	19.5	19.7	19.9	19.4	20.4	21.1	21.0
Number of tractors in use ¹	Thousand	96.7	120.5	150.0	195.1	225.5	260.9	296.8	342.0	385.1	415.7	595.5	622.4	...
Consumption of fertilizers	Thous. metric tons	1 747	1 821	1 919	1 817	1 964	1 970	2 056	2 147	2 203	2 131	2 384	251.0	...

1. At end of year.

2. Preliminary data.

Source: Direct communication to the OECD.

Table G. Industrial production

	Unit or base	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
<i>Indices of industrial production</i>		1970 = 100												
Total	Original base	110	119	126	139	147	152	167	181	195	204	212	212	215
Mining	1953 = 100	108	110	117	124	130	133	139	143	148	153	158	162	164
Manufacturing		110	119	126	140	149	154	168	184	200	208	218	217	219
Basic metals		108	121	132	150	157	158	171	188	196	199	214	211	223
Metal products		109	107	123	140	154	157	175	199	219	226	237	238	235
Chemicals		117	132	146	169	178	182	206	234	251	275	301	299	327
Textiles		107	118	125	135	142	145	152	158	172	182	189	187	189
Food, drinks, tobacco		111	119	126	136	137	147	160	173	187	189	195	199	199
<i>Output of selected commodities</i>														
Electricity	Billion kWh	29.5	33.2	35.1	39.5	40.0	43.6	48.6	51.3	55.0	59.4	60.4	62.1	65.8
Lignite and brown coal	Mill. metric tons	29.8	30.3	31.9	33.0	35.0	36.3	38.6	39.2	41.7	46.6	51.5	54.2	58.2
Petroleum products ¹	-	7.8	8.4	9.1	10.4	10.9	11.7	13.8	14.2	15.8	15.2	13.4	13.6	13.4
Copper ore	-	10.3	11.9	14.2	14.9	14.6	17.4	17.5	17.1	16.4	19.6	18.3	19.7	23.4
Lead ore	Thous. metric tons	124	120	119	120	127	122	130	124	130	121	119	113	114
Zinc ore	-	99	97	97	95	103	107	112	104	102	95	89	70	87
Crude steel	Mill. metric tons	2.4	2.6	2.7	2.8	2.9	2.8	3.2	3.5	3.5	3.6	4.0	3.9	4.1
Cement	-	4.9	5.8	6.3	6.6	7.1	7.6	8.0	8.7	9.1	9.3	9.8	9.7	9.6
Metal and wood-working machines	Thous. metric tons	12.6	15.9	12.5	15.5	17.1	20.5	28.6	31.9	37.5	46.4	46.3	49.3	50.3
Building machines	-	28.4	28.0	34.4	34.6	34.6	38.4	47.1	67.8	82.6	71.4	71.3	63.3	48.0
Rotating machines	-	26.0	26.8	30.7	34.3	39.8	30.1	34.9	40.6	44.1	43.6	47.3	49.2	42.8
Pulp and cellulose	-	489	517	527	560	527	495	584	612	608	606	642	659	681
Cotton fabrics	Mill. sq. meters	391	374	361	365	376	385	384	410	418	385	377	372	379

1. Crude petroleum and refined.

Source: Direct communication to the OECD.

Table H. Labour force and employment
Thousands

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Active population (mid-year estimate) ¹	8 890	8 983	9 078	9 173	9 270	9 367	9 466	9 565	9 666	9 768	9 870	9 974	10 079
Paid employment	4 034	4 210	4 306	4 514	4 758	4 925	5 148	5 383	5 615	5 798	5 966	6 105	6 223
Registered unemployment	291	315	382	449	540	635	700	735	762	785	809	862	910
Other labour force ¹	4 565	4 459	4 390	4 210	3 972	3 807	3 618	3 447	3 289	3 185	3 095	3 007	2 946
Worker emigration(net) ²	923	1 020	1 100	1 035	940	870	825	800	790	770	770	760	740
Yugoslav workers employed in Germany ³	478	475	535	470	410	390	375	360	360	350	336	320	310
Paid domestic employment by sector:													
Social sector ⁴	3 944	4 115	4 213	4 423	4 667	4 833	5 052	5 280	5 506	5 681	5 846	5 980	6 097
Productive activities	3 279	3 422	3 495	3 671	3 876	4 004	4 182	4 364	4 560	4 709	4 848	4 955	5 052
Non-productive activities	665	693	718	752	791	829	870	916	946	972	998	1 025	1 045
Private sector (excluding agriculture)	90	95	93	91	91	92	96	103	109	117	120	125	126
Paid domestic employment by industry ⁴ :													
Agriculture	158	160	161	168	176	178	179	183	188	191	200	210	218
Industry	1 512	1 591	1 638	1 726	1 819	1 874	1 954	2 022	2 102	2 162	2 242	2 313	2 374
Construction	424	430	420	444	479	500	531	567	602	622	622	612	599
Transportation and communication	303	315	320	329	346	357	372	381	387	399	408	416	422
Trade	385	411	429	452	476	494	507	529	558	582	596	607	621

1. Including Yugoslav workers temporarily employed abroad.

2. According to the Federal Bureau of Employment.

3. September figures (1981: 31.3).

4. Data on workers in the social sector by economic activities from 1969-1976 have been changed on the basis of final revision of these data according to the uniform classification of economic activities which has been applied since January 1977.

Source: Direct communication to the OECD.

Table I. Prices and wages
Indices, 1969 = 100

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Agricultural producer prices	145	180	225	257	291	333	373	417	524	709	1 087	1 471	2 174
Industrial producer prices	126	140	158	205	250	266	291	315	357	455	658	820	1 082
Materials	132	146	165	232	285	301	328	354	410	550	793	1 009	1 352
Capital good	118	126	138	156	191	216	236	250	265	297	372	430	524
Consumer goods	121	136	154	188	227	239	265	291	323	391	562	701	921
Export unit values, in dollars	114	121	144	191	208	217	244	266	305	364	395	424	423
Import unit values, in dollars	112	118	142	207	218	224	255	267	318	381	421	430	430
Cost of living													
Total	128	149	178	216	268	299	345	394	474	617	870	1 149	1 613
of which:													
Food	131	156	190	220	273	312	369	425	503	661	946	1 309	1 907
Services	122	134	156	186	231	260	295	338	407	490	623	762	1 000
Wage per person employed in social sector	145	169	196	250	309	357	424	513	617	744	995	1 267	1 602

Source: Direct communication to the OECD.

Table J. Consolidated balance sheet of all banks¹ excluding financial and other organizations and internal banks
Billions of dinars, end of period

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Total short-term operations	139.1	169.1	227.7	274.9	397.8	494.3	870.6	1 356.4	1 981.4	3 589.6
Gold and foreign exchange	27.1	21.3	47.3	49.0	56.7	34.0	75.7	133.1	133.7	292.8
Foreign exchange receivables	7.4	16.6	11.2	10.2	8.7	10.3	51.2	147.2	284.6	520.8
Loans to organizations of associated labour performing economic activities	74.5	96.8	116.4	135.9	176.2	233.0	307.9	474.6	612.6	833.0
Loans to the Federal government and to other public institutions	2.8	7.2	12.5	16.9	14.3	14.7	17.4	24.3	37.2	31.1
Loans to households	1.9	2.5	3.8	4.8	4.8	5.8	7.7	11.8	10.9	11.1
Other assets ²	25.4	24.7	36.5	58.1	137.1	196.5	410.7	565.4	902.4	1 900.8
Total long-term operations	298.7	367.8	473.7	603.3	778.1	968.0	1 241.9	1 425.2	1 764.2	2 376.2
Foreign exchange receivables from the rest of the world	2.1	4.1	0.7	7.9	10.0	13.6	20.7	25.8	32.2	48.1
Loans to organizations of associated labour performing economic activities	186.4	230.9	290.3	365.8	454.9	571.0	733.7	812.5	1 013.9	1 508.5
Loans to the Federal government and to other public institutions	47.4	58.5	70.0	89.5	101.9	120.1	137.2	147.6	154.6	178.8
Loans to households	11.6	17.5	24.7	38.1	48.0	53.2	57.3	63.3	91.3	106.5
Loans for housing construction	40.5	45.2	59.1	64.9	97.0	136.0	193.2	253.8	307.7	325.6
Other assets ³	10.7	11.6	28.9	37.1	66.3	74.1	99.8	122.2	164.5	208.7
Total assets	437.8	536.9	701.4	878.2	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8
Total short-term liabilities	244.3	312.8	423.2	519.2	698.6	860.5	1 268.8	1 696.0	2 264.1	3 382.8
Foreign exchange liabilities	39.4	51.0	57.1	73.1	111.0	157.3	321.5	477.3	645.4	1 152.7
Money supply	97.2	130.7	206.5	251.1	315.3	375.1	461.6	584.3	740.0	888.7
Other and restricted deposits	72.6	89.9	112.4	135.2	155.2	195.7	254.7	329.8	509.0	597.1
Other ⁴	35.1	41.2	47.2	59.8	117.1	132.4	231.0	304.6	369.7	744.3
Total long-term operations	170.6	196.7	241.6	314.2	419.4	536.4	769.7	998.9	1 376.9	2 457.5
Foreign exchange liabilities	39.2	52.9	71.6	98.9	144.6	197.1	349.6	512.1	783.3	1 715.7
Time deposits	34.7	42.0	55.8	71.8	105.2	132.1	163.1	208.4	252.4	298.3
Loans	96.7	101.8	114.2	143.5	169.6	207.2	257.0	278.4	341.2	443.5
Funds	22.9	27.4	36.6	44.8	57.9	65.4	74.0	86.7	104.6	125.5
Total liabilities	437.8	536.9	701.4	878.2	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8

1. Data have been recalculated in line with a new methodology of the National Bank of Yugoslavia.

2. Placements in securities and other receivables.

3. Placements in securities, share in international financial organizations and other receivables.

4. Issued securities, receivables in payment operations and other liabilities.

Source: National Bank of Yugoslavia.

Table K. Imports and exports by commodity groups
Millions of US dollars

SITC SECTIONS		1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Imports														
0. and 1.	Food, drink and tobacco <i>of which:</i> Cereals and cereal preparations	296	308	508	666	420	637	784	605	977	991	788	689	594
2.	Raw materials <i>of which:</i> Textile fibres and waste	100	73	57	213	17	142	92	20	271	302	98	228	68
3.	Mineral fuels	118	137	193	419	255	248	335	348	376	415	457	424	324
5.	Chemicals	193	176	358	951	943	1 082	1 296	1 431	2 248	3 549	3 786	3 433	3 304
6.	Semi-manufactures <i>of which:</i> Base metals	297	349	450	811	834	791	989	1 140	1 653	1 824	2 027	1 658	1 758
7. and 8.	Finished manufactures <i>of which:</i> Machinery Transport equipment	917	844	1 081	1 806	1 747	1 364	1 763	1 698	2 243	2 376	2 595	2 007	1 845
4. and 9.	Other	469	427	521	881	963	700	841	835	1 151	1 313	1 419	1 040	903
		1 187	1 170	1 598	2 239	2 899	2 731	3 791	4 058	5 637	4 674	4 816	4 071	3 243
		768	785	981	1 382	1 987	1 935	2 580	2 833	3 993	3 450	3 417	2 810	1 726
		250	233	434	576	628	548	814	796	1 038	766	944	897	576
		51	49	30	65	115	69	70	56	56	106	108	54	97
	Total	3 253	3 232	4 511	7 542	7 697	7 367	9 633	9 983	14 019	15 064	15 757	13 334	12 154
Exports														
0. and 1.	Food, drink and tobacco <i>of which:</i> Live animals and meat	319	392	459	412	478	618	607	687	720	1 023	1 157	1 147	1 152
	Cereals and cereal preparations	176	247	251	148	222	261	267	313	300	352	629	431	371
2.	Raw materials <i>of which:</i> Wood	11	8	62	73	36	103	86	80	23	108	152	113	264
5.	Chemicals	149	184	275	360	282	429	510	451	619	665	554	497	467
6.	Semi-manufactures <i>of which:</i> Base metals	66	84	157	183	140	248	315	265	318	368	293	251	240
7. and 8.	Finished manufactures <i>of which:</i> Machinery Ships	129	143	176	384	380	353	331	469	636	1 010	1 377	1 073	960
3., 4. and 9.	Other	494	603	814	1 245	1 180	1 337	1 204	1 259	1 606	1 994	2 414	2 251	2 320
		246	308	444	748	579	603	492	497	606	697	700	662	778
		698	886	1 088	1 342	1 712	2 077	2 409	2 598	2 939	3 996	5 162	5 043	4 732
		242	301	365	491	622	802	1 000	1 030	1 329	1 656	2 117	2 147	1 148
		136	162	178	248	304	287	415	421	252	317	310	323	339
		26	29	41	62	40	64	195	204	274	289	265	230	282
	Total	1 814	2 237	2 853	3 805	4 072	4 878	5 256	5 668	6 794	8 977	10 929	10 241	9 913

Source: Direct communication to the OECD.

Table L. Imports and exports by area
Millions of US dollars

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Imports, cif													
OECD countries	2 140	2 113	2 820	4 562	4 677	4 038	5 481	5 890	8 530	7 951	8 395	6 832	5 613
EEC	1 435	1 423	1 905	3 016	3 162	2 876	3 806	3 829	5 794	5 219	5 588	4 486	3 691
Italy	396	400	531	889	869	760	1 029	827	1 146	1 117	1 291	1 023	980
Germany	617	604	856	1 356	1 437	1 233	1 571	1 801	2 888	2 500	2 243	1 858	1 624
United States	198	198	185	357	417	370	546	615	1 059	1 015	957	846	775
Other	507	492	730	1 189	1 098	792	1 129	1 446	1 677	1 717	1 850	1 500	1 147
Centrally planned economies ¹	778	802	1 117	1 755	1 907	2 259	2 781	2 498	3 566	4 535	4 961	4 621	4 491
of which: USSR	281	283	408	752	807	1 002	1 301	1 375	1 793	2 698	2 966	2 737	2 463
Developing countries:	336	316	574	1 225	1 112	1 070	1 371	1 595	1 923	2 578	2 401	1 881	2 050
In Africa	85	100	146	292	159	258	323	397	570	936	1 126	833	187
In America	78	93	189	275	185	212	327	222	308	468	357	221	182
In Far-East	83	65	63	114	180	118	164	440	185	247	252	350	929
In Middle-East	90	57	176	544	588	482	555	536	860	927	666	477	752
Total	3 253	3 232	4 511	7 542	7 697	7 367	9 633	9 983	14 019	15 064	15 757	13 334	12 154
Exports, fob													
OECD countries	960	1 272	1 588	1 773	1 452	2 040	2 101	2 437	2 988	3 348	3 501	2 883	3 307
EEC	645	809	1 018	1 044	930	1 327	1 395	1 305	2 083	2 368	2 531	2 091	2 357
Italy	226	308	465	432	372	596	664	531	716	833	1 012	781	806
Germany	210	264	319	364	316	426	390	472	739	778	867	720	807
United States	109	150	233	316	265	354	297	371	373	393	387	311	346
Other	206	313	337	413	258	359	409	761	532	587	583	481	604
Centrally planned economies ¹	666	807	970	1 581	1 924	2 069	2 109	2 180	2 747	4 149	5 433	5 228	4 630
of which: USSR	267	329	407	668	1 012	1 142	1 138	1 394	1 401	2 489	3 644	3 424	2 699
Developing countries:	188	158	295	451	696	769	1 046	1 051	1 059	1 480	1 995	2 130	1 976
In Europe	1	1	1	1	3	4	6	3	4	5	4	4	8
In Africa	68	55	113	170	289	307	469	467	543	735	876	883	310
In America	42	43	66	62	68	57	122	47	27	57	74	65	62
In Far-East	41	20	55	90	161	203	151	300	128	206	311	293	984
In Middle-East	36	39	60	128	175	198	298	234	357	477	730	885	612
Total	1 814	2 237	2 853	3 805	4 072	4 878	5 256	5 668	6 794	8 977	10 929	10 241	9 913

1. Countries of Mutual Economic Assistance (CMEA), P.R. of China, and Albania.
Source: Direct communication to the OECD.

Table M. Balance of payments
Millions of US dollars

	1973	1974	1975	1976	1977	1978	1979	1980	1981 ¹	1982	1983 ²
Trade balance	-1 658	-3 715	-3 625	-2 489	-4 380	-4 317	-7 225	-6 086	-4 828	-3 093	-2 240
Exports, fob	2 853	3 805	4 072	4 878	5 254	5 671	6 794	8 978	10 929	10 241	9 914
Imports, cif	-4 511	-7 520	-7 697	-7 367	-9 634	-9 988	-14 019	-15 064	-15 757	-13 334	-12 154
Services and transfers, net	2 143	2 532	2 622	2 654	2 798	3 061	3 564	3 795	4 078	2 629	2 514
Transportation	323	396	473	429	568	585	731	832	1 044	906	795
Foreign travel	589	644	702	725	750	930	1 028	1 515	1 853	1 415	862
Investment income	-181	-198	-281	-279	-258	-300	-633	-1 084	-1 710	-1 773	-1 532
Private transfers and workers' remittances	1 412	1 379	1 310	1 415	1 427	1 745	1 710	1 539	2 042	1 268	1 167
Other services		311	418	364	311	101	728	993	849	813	1 222
Current Balance	485	-1 183	-1 003	165	-1 582	-1 256	-3 661	-2 291	-750	-464	274
Long-term capital, net	424	677	1 141	1 285	1 263	1 597	1 590	2 281	1 458	479	1 363
Loans received	601	702	1 219	1 415	1 463	1 702	1 740	2 516	1 708	679	1 519
Loans extended	-177	-25	-78	-130	-200	-105	-150	-235	-250	-200	-156
Short-term capital, net	-38	13	6	-	75	247	283	739	261	-506	-647
Bilateral balances (-: capital outflow)	-	196	-137	-146	161	-65	-664	354	-770	-805	244
Errors and omissions	-285	200	123	183	147	-52	-153	-484	-79	284	-1 344
Reserve movements (+: increase)	586	-97	130	1 487	64	471	-1 277	599	120	-1 012	-110

1. Trade figures in this table differ from those in tables K and L. In the above table the statistical exchange for 1981 used by the authorities is \$1=41.80 dinars and in the latter tables it is \$1=27.30 dinars.

2. Preliminary data.

Sources: *Balance of Payments Yearbook*, and direct communication to the OECD.

BASIC STATISTICS :
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

		Reference period	Units	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxem- bourg	Nether- lands	New Zealand	Norway	Portugal	Spain	Sweden	Switzer- land	Turkey	United Kingdom	United States	Yugo- slavia ¹
POPULATION	Total	Mid-1981	Thousands	14 923	7 508	9 852	24 365	5 122	4 800	53 963	61 682	9 730	231	3 443	56 502 ²	117 660	366	14 247	3 176	4 100	9 970	37 654	8 324	6 429	45 747	56 020	229 849	22 520
	Inhabitants per sq. km of land area	"	Number	2	89	323	2	119	14	98	248	74	2	49	118	316	141	346	12	13	108	75	19	156	59	230	25	87
	Net average annual increase	Mid-1971 to Mid-1981	%	1.3	0.1	0.2	1.2	0.3	0.4	0.5	0.1	1.0	1.2	1.5	0.5	1.1	0.6	0.8	1.0	0.5	1.1	1.0	0.3	0.2	2.3	0.1	1.0	0.9
EMPLOYMENT	Total civilian	1981	Thousands	6 364	3 276	3 669	10 933	2 369	2 234	20 959	25 588	3 529	107	1 136	20 623	55 810	160	4 922	1 265	1 932	3 969	10 931	4 225	3 054	14 668	23 819	100 397	9 690 ³
	of which: Agriculture	"	% of total	6.5	8.8	3.0	5.5	7.3	11.1	8.6	5.5	30.7	11.7	17.7	13.4	10.0	5.6	5.0	11.2	8.5	26.7	18.2	5.6	7.0	60.1	2.6	3.5	33.8
	Industry ⁴	"	"	30.6	39.5	33.4	28.3	29.3	34.8	35.9	43.5	29.0	37.4	31.7	37.5	35.3	38.1	30.2	32.6	29.8	37.5	35.2	31.3	39.3	16.4	35.7	30.1	22.3
	Other	"	"	62.8	51.7	63.6	66.2	63.3	54.1	56.2	51.0	40.3	50.9	56.2	49.1	54.7	56.3	64.8	56.1	61.7	36.8	46.6	63.1	53.7	23.5	61.7	66.4	41.9
GROSS DOMESTIC PRODUCT in purchasers' values		1981	US \$ billion ¹¹	160.7	66.5	95.1	284.3	58.1	49.1	569.4	683.2	36.7	2.9	16.7	350.2	1 129.5	3.9	140.5	25.0 ⁹	57.1	23.8	186.1	122.4	94.5	57.6	497.8	2 906.3	67.8 ¹⁰
	Average annual volume growth ⁸	1976 to 1981	%	2.7	2.6	1.5	2.8	1.3	3.5	2.3	2.5	2.9	4.0	3.8	2.6	4.6	1.8	1.4	0.2	3.6	4.0	1.4	1.0	2.4	2.0	0.5	2.8	..
	Per capita	1981	US \$ ¹¹	10 763	8 842	9 651	11 741	11 350	10 552	11 076	3 769	12 791	4 855	6 123	9 606	10 566	9 861	7 957	13 937	2 398	4 938	13 505	14 778	1 262	8 886	12 647	3 034 ¹²	61.8 ¹⁰
GROSS FIXED CAPITAL FORMATION		1981	% of GDP	24.9	24.9	17.9	23.7	15.7	24.3	21.2	22.0	21.0 ⁸	25.9	29.8	20.3	31.0	23.3	19.0	20.6	27.2	31.3	20.1	19.3	24.2	19.9	15.9	17.9	31.0 ¹⁰
	of which: Transport, machinery and equipment	"	"	12.4	11.7	5.8	8.7	6.4	9.8	8.3	8.0	7.5	12.7 ¹⁰	8.5	10.5	9.2 ¹⁰	7.3	7.8 ¹⁰	9.1	13.8	13.8	6.5 ¹⁰	7.8	7.6	8.7 ¹⁰	8.1	8.1	..
	Residential construction	"	"	4.8 ¹⁰	..	3.9	4.8	4.0	6.3	6.1	6.6	6.0	4.7	6.6 ¹⁰	5.6	6.3	5.5 ¹⁰	5.5	3.6 ¹⁰	4.5	7.8	5.5 ¹⁰	4.6	16.6	7.2 ¹⁰	2.1	3.6	7.2 ¹⁰
	Average annual volume growth ⁸	1976 to 1981	%	3.8	0.9	-2.6	3.0	-6.6	0.0	0.9	3.0	0.2	3.1	6.4	2.8	4.5	2.2	-0.4	-3.4	0.2	6.6	-1.2	-1.4	5.1	-2.4	-1.9	3.3	5.7 ¹⁰
GROSS SAVING RATIO ¹²		1981	% of GDP	21.5 ¹⁰	24.5	12.9	21.4	12.3	24.2	19.4	20.8	22.8	22.3	15.0	18.9	31.9	47.8	20.0	20.7 ⁹	29.8	22.7	18.0	16.0	28.7	20.3	17.3	18.9	37.0 ¹⁰
GENERAL GOVERNMENT	Current expenditure on goods and services	1981	% of GDP	17.1	18.4	19.0	19.5	27.7	19.1	15.8	20.7	17.9	11.8	22.0	18.1	10.1	17.5	17.9	17.4 ⁹	19.0	14.9	11.8	29.3	12.5	12.6	22.3	18.1	16.9 ¹⁰
	Current disbursements ¹³	"	"	31.1 ¹⁰	44.0	52.7	38.4	55.1	35.2	45.7	44.3	36.0	25.0 ¹⁰	48.3 ¹⁰	46.1	26.5	51.6 ¹⁰	55.8	..	44.6	30.9 ¹⁴	29.4 ¹⁰	60.3	28.1	..	44.6	34.2	..
	Current receipts	"	"	34.4 ¹⁰	47.4	44.0	38.7	51.2	39.4	46.1	44.6	30.4	34.0 ¹⁰	41.7 ¹⁰	38.7	29.3	57.3 ¹⁰	55.9	..	52.5	28.1 ¹⁴	30.0 ¹⁰	59.0	32.6	..	43.4	33.7	..
NET OFFICIAL DEVELOPMENT ASSISTANCE		1982	% of GNP	0.57	0.53	0.60	0.42	0.77	0.30	0.75	0.48	..	..	0.20	0.24	0.29	..	1.08	0.28	0.99	..	..	1.02	0.25	..	0.38	0.27	..
INDICATORS OF LIVING STANDARDS	Private consumption per capita	1981	US \$ ¹¹	6 431	4 977	6 354	6 518	6 385	5 583	6 856	6 270	2 555	7 934	3 099	3 831	5 550	6 393	5 979	4 748	6 609	1 668	3 449	7 091	9 244	885	5 382	8 085	1 580 ¹⁰
	Passenger cars, per 1 000 inhabitants	1978	Number	475	272	302	410 ²²	219	235	327	346	79	339	194	300	185	423	288	395	282	118	178	345	324	14	262	526	85
	Telephones, per 1 000 inhabitants	1981	"	489 ²⁴	421	387	694	675	522	498	488	302	475 ²⁴	208	364	502	547 ²³	539	560	485	149	329	828	751	39 ²³	507	789	71 ²³
	Television sets, per 1 000 inhabitants	1980	"	378	296 ²³	395 ²³	471	368 ²³	322 ²³	354	337 ²³	156 ²³	275 ²³	225 ²³	386	539	245 ²³	296 ²³	278	292 ²³	141	252	381 ²³	314 ²³	75 ²³	404	624	192 ²³
	Doctors, per 1 000 inhabitants	1981	%	1.9	1.6 ²⁵	2.6	1.6	2.2 ²⁵	2.3	2.0	2.2 ²⁵	2.3	2.3 ²⁵	2.0	1.2 ²⁴	3.1 ²⁵	1.3 ²⁵	1.7 ²⁵	1.9	2.0	1.9 ²⁵	2.6	2.2 ²⁵	1.6	0.6	1.3	2.0 ²⁵	1.3 ²⁵
	Full-time school enrolment ¹⁵	1980	%	86	74	89	89	87 ²³	90	85	79 ³⁰	81 ¹⁹	83 ¹⁴	93	73	91	69	94	81	94 ²³	55 ²³	87 ²³	86	..	37 ²³	82 ²³	100 ³⁰	83
	infant mortality ¹⁷	1982	Number	10.0 ²⁸	12.8	11.7 ²⁸	9.6 ²⁸	8.1 ²⁸	6.5 ²⁸	9.6 ²⁸	11.6 ²⁸	15.6 ²⁸	6.0 ²⁸	10.6 ²⁸	13.2	7.1 ²⁸	11.0 ²⁸	8.1	11.8	7.5 ²⁸	26.0 ²⁸	10.3 ²⁸	6.8	7.6 ²⁸	131.0 ²⁷	11.8 ²⁸	11.2	30.7 ²⁸
		Average annual increase	1977 to 1982	%	10.2	6.3	8.1	9.9	10.4	11.0	14.2	5.4	26.3	49.9	16.3	19.6	6.2	6.2 ³¹	4.8	16.7	8.3	19.3	20.5	8.7	4.4	..	13.4	8.4	25.4
	Consumer prices	"	%	9.6	5.2	6.4	10.3	10.8	9.6	11.7	4.7	20.3	49.4	15.2	16.8	4.6	6.2	5.5	14.9	9.7	21.0	16.0	10.3	4.2	56.5	12.0	9.8	27.3
FOREIGN TRADE	Exports of goods, fob	1982	US \$ million ¹¹	22 152	15 648	52 404 ⁷	68 412	15 312	13 068	92 352	175 452	4 284	684	8 088	73 380	138 252	..	66 228	5 551	17 544	4 176	20 568	26 736	25 932	5 772	97 224	212 280	8 364
	As percentage of GDP	"	%	14.01	23.36	60.58 ⁷	23.52	27.20	26.89	17.13	26.60	11.42	26.31	46.22	21.28	13.02	..	48.27	..	31.27	17.92	11.48	27.31	27.04	10.99	20.63	7.02	13.46 ²⁸
	Average annual volume increase	1977 to 1982	%	2.32 ²⁹	5.48	2.60 ⁷	0.08	5.83	5.25	4.57	2.59	..	..	6.83	3.07	4.77	..	2.21	3.66	6.40	..	7.57 ²³	3.52	1.85	14.25	1.55	2.91	..
	Imports of goods, cif	1982	US \$ million ¹¹	24 240	19 500	57 828 ⁷	54 816	16 836	13 428	115 380	154 044	9 972	948	9 684	85 920	131 124	..	62 580	5 782	15 456	9 420	31 620	27 624	28 596	8 940	99 672	243 948	10 980
As percentage of GDP	"	%	15.33	29.11	66.85 ⁷	18.84	29.90	27.63	21.40	23.36	26.59	36.46	55.34	24.92	12.35	..	45.61	..	27.55	40.43	17.65	28.22	29.82	17.63	21.15	8.06	17.67 ²⁸	
	Average annual volume increase	1977 to 1982	%	-0.69 ²⁹	1.57	1.59 ⁷	-0.01	-0.24	3.87	4.54	3.06	..	4.26	..	3.05	1.66	..	0.38	2.86	1.67	..	2.06 ³³	1.89	4.43	-4.39	3.32	-0.31	..
TOTAL OFFICIAL RESERVES ²⁴		Mid-1982	US \$ million	4 336	6 131	5 796 ⁷	4 076	2 472	1 551	22 644	48 017	1 095	190	2 651	19 601	26 733	..	1 480	656	6 611	1 374	9 809	3 798	18 024	1 254	14 572	27 710	1 260
	As ratio of average monthly imports of goods	In 1982	ratio	2.15	3.77	1.20 ⁷	0.89	1.76	1.39	2.35	3.74	1.32	2.41	3.29	2.74	2.45	..	2.20	1.36	5.13	1.75	3.72	1.65	1.76	1.68	1.76	1.36	1.38

1. Partly from national sources.
 2. Total resident population.
 3. Private and socialised sector.
 4. According to the definition used in OECD: Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
 5. Social product.
 6. At constant prices.
 7. Including Luxembourg.
 8. Excluding ships operating overseas.
 9. Fiscal year beginning 1st April.
 10. Fiscal year beginning 1st July.

11. At current prices and exchange rates.
 12. Gross saving = Gross national disposable income minus private and government consumption.
 13. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.
 14. 1976.
 15. Gross enrolment rates in secondary schools.
 16. 1974.
 17. Deaths in first year per 1 000 live births.
 18. Figures are not strictly comparable due to differences in coverage.
 19. 1978.

20. 1975.
 21. 1972.
 22. 1977.
 23. 1979.
 24. Gold included in reserves is valued at 35 SDR per ounce (see IMF, *International Financial Statistics*, series Total Reserves).
 25. 1976 to 1980.
 26. 1980.
 27. 1975 to 1980.
 28. 1981.
 29. Licences issued.

30. Primary and secondary schools.
 31. 1976 to 1981.
 32. 1977 to 1980.
 33. 1977 to 1979.
 Note: Figures within brackets are estimates by the OECD Secretariat.
 Sources: Common to all subjects and countries: OECD: *Labour Force Statistics, Main Economic Indicators, National Accounts, Observer, Statistics of Foreign Trade (Series A)*; Statistical Office of the European Communities, *Basic Statistics of the Community*; IMF, *International Financial Statistics*; UN, *Statistical Yearbook*.
 National sources have also been used when data are not available according to standard international definitions.

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