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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

YUGOSLAVIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

JANUARY 1987

OCDE OECD

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ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Pursuant to article 1 of the Convention signed in Paris on 14th December, 1960, and which came into force on 30th September, 1961, the Organisation for Economic Co-operation and Development (OECD) shall promote policies designed:

- to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;
- 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.

The original Member countries of the OECD are Austria, Belgium, Canada, Denmark, France, the Federal Republic of Germany, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The following countries acceded subsequently through accession at the dates hereafter: Japan (28th April, 1964), Finland (28th January, 1969), Australia (7th June, 1971) and New Zealand (29th May, 1973).

The Socialist Federal Republic of Yugoslavia takes part in some of the work of the OECD (agreement of 28th October, 1961).

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BASIC STATISTICS OF YUGOSLAVIA

THE LAND AND THE PEOPLE

Total area (1 000 sq. km)	256
Agricultural area (1 000 sq. km) 1984	143.0
Forest area (1 000 sq. km) 1984	92.8
Population (30.06.1985, 1 000)	23 120
Republics:	
Serbia	9 597
Croatia	4 655
Bosnia and Herzegovinia	4 313
Macedonia	2 016
Slovenia	1 926
Montenegro	613
Major cities (1981, 1 000):	
Belgrade	1 470
Zagreb	856
Skoplje	505
Sarajevo	449
Ljubljana	305

Net increase in population, 1971-1985 (1 000), annual average	186
Total paid employment (1985, 1 000)	6 516
of which:	
Industry	2 529
Building	583
Agriculture (social sector)	231
Active population in private agriculture (1982, 1 000)	2 292

PRODUCTION

Gross national product at factor cost (1985, billion dinars)	11 365.8
Gross domestic product per head (1985, US $)	2 784
Gross fixed capital formation: 1985 (billion dinars)	2 566.8
1985 (per cent of GNP)	21.0

Origin of GDP in 1985 (per cent of GDP):	
Agriculture, forestry and fishing	12.3
Mining and manufacturing	42.3
Building	7.3
Other	38.1

GOVERNMENT

Government consumption (1985, per cent of GDP)	13.8
General government revenue, including social security (1985, per cent of GDP)	29.2

FOREIGN TRADE

	Structure of exports in 1985 (per cent)	Structure of imports in 1985 (per cent)
Food, drinks, tobacco	9.1	3.2
Raw materials and semi-finished goods	40.2	69.8
Finished manufactures	50.7	27.0

THE CURRENCY

Monetary unit: Dinar

Currency units per US $, average of daily figures:	
Year 1985	312.50
September 1986	410.99

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 Yougoslavia by the Economic and Development Review Committee on 25th November 1986.

After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 17th December 1986.

INTRODUCTION

Developments during the past two years or so have been unsatisfactory both viewed against official expectations and in comparison with other OECD countries. The growth of GDP remained moderate, whereas inflationary pressures strengthened considerably notwithstanding the marked decline of inflation in the OECD area and the fall in oil prices. The rise of consumer prices accelerated from a year-to-year rate of some 50 per cent in 1984 to more than 70 per cent in 1985, reaching 96 per cent by mid-1986. At the same time the external adjustment process stalled. The current account surplus with the convertible currency area shrank by more than half between 1984 and 1985 and turned into deficit in the first six months of the current year despite continued high margins of unused capacity and labour market slack.

In view of these developments the Authorities have taken a number of measures since mid-1986 to bring inflation under better control and to improve the balance of payments. However, many of the measures taken so far are of a temporary or *ad hoc* nature and are therefore planned to be replaced or supplemented by more fundamental reforms aimed at enhancing economic efficiency and the supply responsiveness of the economy. A number of wide-ranging legal and constitutional changes are currently under active consideration at all levels of government. Some measures have already been presented to Parliament in the context of the Economic Resolution for 1987.

Part I of this Survey reviews economic developments since the end of 1984 attempting to identify the immediate causes of the present economic crisis. Part II recalls the principal impediments to an efficient allocation of resources and the reasons for Yugoslavia's inflation-proneness and fragile external position. It also discusses the changes made in the institutional set-up and new policy initiatives since 1984. Part III is devoted to a critical analysis of financial markets and their inter-actions with monetary management. By trying to identify weaknesses in the functioning of the financial system this special chapter may contribute to a better understanding of Yugoslavia's present malaise. Part IV summarises the main findings of the Survey and offers some policy considerations.

I. RECENT DEVELOPMENTS AND THE SHORT-TERM OUTLOOK

Economic developments during the past two years[1] have been turbulent and macroeconomic performance unsatisfactory. The first half of 1985 saw a continuation of the principal trends predominating since the early 1980s: declining real earnings, a downward trend in fixed investment, further consolidation of the current balance-of-payments surplus in convertible currencies, and, at least until early 1985, relative stability of a high underlying rate of inflation[2]. The second half of 1985 was characterised by a strong policy-induced rebound of domestic demand accompanied by a marked strengthening of inflationary tendencies and strong import demand. Macroeconomic imbalances deteriorated further in the first half of 1986 when average earnings increased at annual rates of more than 100 per cent and the current external account in convertible currencies swung back into deficit. In view of these disturbing developments the new Government (formed in May 1986) has started introducing a series of measures, with the immediate aim of reining in inflation and improving the balance-of-payments situation.

Demand and output

After four years of stabilisation efforts associated with declining living standards and a significant improvement of the balance of payments in 1983-1984, the 1985 Economic Resolution aimed at a revival of domestic demand and an acceleration of Gross Social Product (GSP) growth. This was expected to be brought about by a sharp turnaround of final domestic demand growth from negative during 1979-1984 to positive in 1985, with all demand components participating in the renewed upturn. Yet, activity in the first half of 1985 continued to decline. The inflation surge had a negative impact on both consumer demand and public consumption[3]. More importantly, fixed investment continued its downward trend under the combined effect of a number of factors: rising real interest rates; the Law requiring enterprises to increase their self-financing ratio and to provide an "adequate" level of working capital before undertaking new projects; and inclusion in taxable income of interest payments on credit for investment. For the sixth year running, despite a rebound of private and public consumption in the second half of 1985, recorded final domestic demand declined markedly. However, as in the previous few years, there was an important (probably statistically exaggerated) positive contribution from stockbuilding[4] to the growth of total demand. Net exports continued to be an important source of real growth offsetting the decline in domestic absorption[5]. GSP, excluding agriculture, grew at 1.8 per cent, the same rate as in 1984.

The Economic Resolution for 1986 projected again a relatively rapid GSP growth of 3 per cent (non-agricultural output growth 2.4 per cent). Contrary to the five previous years, only a small contribution from the real foreign balance was forecast (0.4 percentage points) leaving consumption and investment as the principal sources of growth. At the same time inflation was estimated to decline and the current external surplus in convertible currencies to reach $800 million (against an outcome of $350 million in 1985). Output growth was expected to be favoured by easier supply conditions of raw and intermediate materials and by greater energy production.

In the first half of 1986 all domestic demand components exceeded significantly their targets. Fuelled by sharply rising real disposable income, the year-on-year increase in private consumption attained almost 5 per cent. Many general government agencies were boosting consumption and embarking on investment projects notwithstanding the fiscal restraint postulated in the 1986 Economic Resolution (see below). Similarly, there was a sharp revival in enterprise investment and strong construction activity. Domestic demand buoyancy coupled with shrinking export markets resulted in a fall in export volumes and a steep rise in import volumes. Despite this contractionary effect, industrial production in the first half of 1986 was 5 per cent above the level of a year earlier and GSP, excluding agriculture, 6 per cent higher, well above the official targets.

Table 1. **Demand and output**[1]

	Billion dinars current prices	Percentage change[2]						
	1985	1981	1982	1983	1984	1985	1986 Official[3]	1986 OECD[4]
Consumer expenditure	5 587	–1.0	–0.1	–1.7	–1.0	0.0	2.0	4.0
Public consumption[5]	941	–4.8	–0.7	–5.1	–0.2	–0.3	2.0	8.0
Fixed investment	2 567	–9.8	–5.5	–9.7	–9.4	–4.0	3.5	5.0
Final domestic demand	9 095	–4.5	–2.0	–4.7	–3.6	–2.4	2.4	4.7
Stockbuilding[6]	2 365	5.5	–0.7	2.8	4.7	3.2	1.5	1.3
Total domestic demand	11 460	0.6	–2.7	–1.4	1.5	1.2	3.4	5.1
Exports[7]	2 638	–0.4	–11.2	1.4	10.1	8.2	0.0	–0.5
Imports[7]	2 774	–12.3	–13.5	–5.5	–0.4	2.3	7.0	7.0
Foreign balance[6]	–136	4.8	1.5	2.0	2.7	1.6	–1.9	–1.8
Statistical discrepancy[6]	–58	–4.0	–1.5	–1.4	–2.4	–2.2	2.0	0.4
Social product	11 266	1.5	0.5	–1.3	2.0	0.5	3.7	3.7
Social sector	10 090	1.3	–0.2	–0.9	2.1	1.5	3.6	
Private sector, total	1 176	2.4	5.1	–0.7	–0.2	–5.7	4.3	
Excluding agriculture	332	1.4	1.2	2.6	0.0	4.4	3.9	
Agriculture and forestry	1 310	2.9	7.4	–0.7	2.1	–6.6	4.7	5.0
Other activities	9 956	1.2	–0.5	–0.9	1.8	1.8	3.5	3.5
Industry	5 128	4.2	0.1	1.3	5.6	2.7	4.0	4.0
Construction	796	–5.0	–7.6	–13.2	–4.2	–1.5	2.5	
Services	4 033	–0.5	0.8	–0.8	–0.8	1.3	3.1	

1. Yugoslav definitions and concepts.
2. Changes at constant 1985 prices.
3. Official estimates.
4. OECD estimates based on partial indicators.
5. Public consumption is called "general and collective consumption" according to Yugoslav definitions.
6. 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.
7. Calculated at the rate of 234 dinars = US$1.

Source: Direct communication to the OECD and OECD estimates.

Employment

Labour market conditions in Yugoslavia are importantly influenced by a variety of economic and social factors. In addition to the 100 000 annual increase in the total labour force (1 per cent per annum) there are almost as many persons moving out of agriculture every year. Furthermore, there has been a small but steady inflow of returning emigrants. In total, the annual rate of growth of "non-agricultural" labour supply amounts to almost 3 per cent. This high rate could be *productively* absorbed only in periods of rapid expansion. Since the end of the 1970s, however, the growth rate of non-agricultural GSP has fallen to a meagre 1 per cent from a long-run growth rate of about 7 per cent, while non-agricultural employment has continued to rise at a relatively rapid pace of 2.5 per cent per annum. The institutional set-up – self-management, which practically excludes lay-offs – and, more importantly, social pressure at all levels of government (Communal, Republic, Federal) to keep unemployment down may help to explain the continuous upward trend in employment. It also explains its relatively small responsiveness to cyclical fluctuations. In 1985, as in 1984, total employment excluding private agriculture increased by 2¾ per cent – about 10 per cent in the private non-agricultural sector and 2.4 per cent in the socialised sector. Particularly important was the increase in the number of self-employed in the private sector (12 per cent) while the number of private sector employees grew by slightly over 4 per cent. This rapid growth (already evident in 1984) reflects an important shift in policies in favour of small enterprises combined with a relaxation of the ceiling on the number of employees per private enterprise. The private sector has thus become an important source of employment creation[6].

Table 2. **Employment**

	1984 million	1981	1982	1983	1984	1985	Jan.-Aug. 1986 / Jan.-Aug. 1985
		Percentage change					
Domestic labour force[1]	9.6	0.9	1.1	1.1	1.2	1.6	1.8[2]
Domestic employment	9.0	0.7	0.7	0.8	0.9	1.4	1.8[2]
Employment in the socialised sector	6.2	2.9	2.3	2.0	2.1	2.5	3.0
of which:							
Industry	2.4	3.7	3.2	2.6	3.0	3.4	3.9
Employment in the private sector	2.7	–3.6	–2.5	–1.2	–1.9	–0.9	
Agriculture	2.2	–4.7	–4.0	–3.3	–3.8	–3.6	
Other	0.5	3.3	6.3	6.7	8.2	10.9	7.0[2]
of which:							
Self-employed	0.4	4.0	4.0	9.0	9.7	12.6	
Domestic employment excluding agriculture	6.5	2.9	2.6	2.3	2.6	3.1	
		Thousand					
Registered unemployment[3]		809	862	910	975	1 040	1 086
Vacancies		77	71	73	78	84	91
Memorandum item:							
Workers temporarily employed abroad		770	760	740	730	710	

1. Excluding workers temporarily employed abroad.
2. Preliminary estimates.
3. Registered unemployment grossly overestimates actual unemployment (see text).
Source: Direct communication to the OECD; Federal Statistical Service, *Indeks* and OECD estimates.

The growth of employment accelerated towards the end of 1985. In the first half of 1986 the year-to-year increase in the socialised sector amounted to some 3 per cent and the corresponding rise of total non-agricultural employment to 3.5 per cent. Overall employment may have increased by around 1.5 per cent, up from 0.9 per cent in the previous two years. Despite stronger demand for labour, registered unemployment continued to increase, albeit at a slower pace, reaching 1.08 million by mid-1986. The continued upward trend of unemployment in the face of relatively strong employment growth is largely attributable to the reflow of previously "discouraged" workers into the labour force. It should also be noted that recorded unemployment overstates significantly the number of "genuine" unemployed (by perhaps as much as one-third)[7]. Excluding double counting and those already in work but seeking another job, "genuine" unemployment may have been close to 700 000 in mid-1986 or about 7 per cent of the total labour force and 9 per cent of the non-agricultural labour force (compared with 5½ per cent and 7½ per cent respectively in 1984).

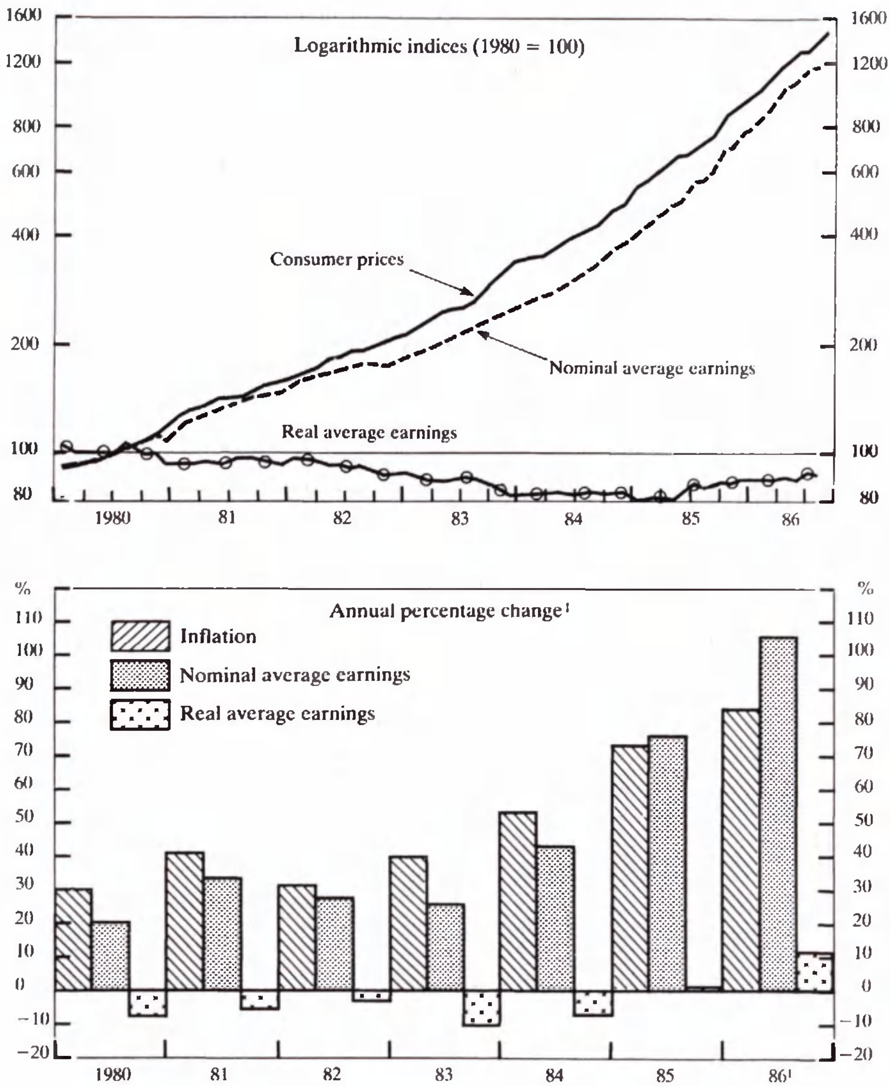
Wages and prices

Following a five-year period of high but fluctuating increases in prices[8], inflation gathered momentum in the beginning of 1985 steepening further until mid-1986. The initial surge of prices cannot be related to any specific factors: the increase in import prices during 1984 was considerably smaller than during 1983, when a sizeable real effective devaluation of the dinar took place. There was also a marked decline in the (year-on-year) rise in food prices at the end of 1984, which continued into early 1985. Similarly, in 1985 the increase of most administered prices, even of those for which the objective was to maintain a positive growth differential (e.g. energy), lagged considerably behind the rise in other prices. Thus, "special" factors had a dampening effect on inflation largely offsetting the small acceleration in the growth of unit labour costs which occurred around the turn of 1984.

Inflationary expectations and speculative price rises might therefore have provoked the initial acceleration of inflation. The evolution of a more inflationary climate was probably favoured by the relaxation of price controls[9] and a shift of policy emphasis in late 1984 from demand restriction to a revival of growth. An important process of price liberalisation began after a four-month price freeze was lifted in May 1984. In the beginning the pace of liberalisation was cautious, but in January 1985 prices for most (83 per cent) goods and services were completely liberalised. This entailed an upsurge of inflation stronger than could be explained by the rise in prices previously "suppressed". In fact, many enterprises whose prices had not been controlled seemed to join in the general "price race" so as to maintain "traditional" price differentials. Others might have "exploited" the fact that in the event of radical changes in price systems it is difficult to apportion the blame for subsequent excessive price increases especially if the starting level of inflation is high. Above all, there was an apparent tendency to raise prices in anticipation of a possible reintroduction of controls. Moreover, financial strains compounded by the increase in interest rates exerted upward pressure on prices, while the incentive to run down stocks remained weak given the persistence of negative real interest rates and the prospect for significant inflation gains.

In the second half of 1985 the inflationary momentum was reinforced by a substantial increase in food prices[10] following the drought and, more importantly, by a partly policy-induced sharp acceleration in the advance of average earnings. Between 1980 and 1984 policy had been focussed, with considerable success, on reducing real average earnings so as to make room both for financial consolidation and repayment of external debt. The restraint of nominal wages had been instrumental in dampening the upward trend of the wage-price spiral over this period. But in the context of a major change in policy priorities, in the 1985 Economic

Diagram 1: **Nominal and real earnings**



Note: 1. January-August 1986 over January-August 1985.
Source: OECD, *Main Economic Indicators;* Federal Bureau of Statistics, *Indeks.*

Table 3. **Prices and wages**

Percentage change

	1981	1982	1983	1984	1985	Dec. 84 / Dec. 83	Dec. 85 / Dec. 84	June 86 / June 85	Nov. 86 / Nov. 85
					Prices				
Producer prices									
Industrial goods	44.6	25.0	31.6	56.8	81.5	52.9	81.3	71.5	68.5[3]
Agricultural goods	51.5	34.9	44.9	44.0	60.0	26.6	84.1	94.9[2]	
Retail prices	46.0	29.5	38.9	56.7	75.7	52.4	79.5	91.8	93.4
of which:									
Agricultural products	39.2	43.8	42.8	40.0	66.9	31.1	88.9	108.4	80.7
Industrial products	49.4	28.6	38.9	61.8	75.6	57.2	75.6	87.2	95.0
Consumer prices[1]	40.7	31.7	40.5	52.2	73.5	46.1	85.2	96.1	92.9
Goods	42.9	32.9	42.0	54.8	73.2	46.1	85.6	95.9	91.9
of which:									
Food	42.9	38.8	44.9	47.2	70.1	33.3	95.2	109.7	85.3
Services	27.1	22.0	31.1	39.8	75.5	44.5	81.8	95.8	100.7
					Wages				
Net average earnings social sector	34	27	26	44	78	50	97	112.7	106.6[4]
Economic sector	35	27	27	44	78	51	96	110.8	106.2[4]
Non-economic sector	28	27	24	44	80	49	101	115.6	108.5[4]
Real net average earnings social sector	(–5)	(–4)	(–11)	(–6)	(2)	(3)	(6)	(7.3)	(4.8)[4]

1. Cost-of-living index.
2. April to April.
3. October to October.
4. September to September.

Source: Federal Statistical Office, *Indeks* and direct communication to the OECD.

Resolution the Authorities aimed at achieving a rise in *real* average earnings of 1.1 per cent. In the face of accelerating inflation this objective could only be achieved by permitting an even faster growth of average earnings. Indeed, the year-on-year growth of average earnings reached almost 100 per cent by the end of 1985, compared with 70 per cent in June 1985 and 50 per cent at the end of 1984. Average earnings continued to increase faster than inflation in the first half of 1986, bringing the year-on-year increase to 113 per cent in nominal terms and to 8 per cent in real terms by mid-year against a 0.5 per cent target for 1986 as a whole.

Balance of payments

External transactions in 1985 and in the first half of 1986 turned out to be less favourable than projected in the Economic Resolutions. The current surplus in convertible currencies declined to $350 million in 1985 (the target was $880 million) due to weaker growth of real exports. Agricultural exports suffered from the fall in agricultural output while market gains in industrial goods were considerably smaller than in the two previous years. The effects of the significant real effective depreciation in 1982-83 were almost exhausted by 1985 and the buoyancy in domestic demand in the second half of the year diverted exports to the home market. The latter factor and anticipatory imports before the introduction of the new

Table 4. **Balance of payments**

Billion dollars

	1982		1983		1984		1985		1985 Jan.-Sept.	1986 Jan.-Sept.
	Total	Convertible currency	Total	Convertible currency	Total	Convertible currency	Total	Convertible currency	Convertible currency	
Exports	10.2	5.9	9.7	6.0	10.1	6.5	10.6	6.5	4.5	5.0
Imports	13.2	9.6	11.8	7.7	11.9	7.7	12.2	8.3	5.5	6.7
Trade balance	–3.1	–3.8	–2.1	–1.7	–1.8	–1.2	–1.6	–1.8	–1.0	–1.7
Net invisible receipts	2.6	2.4	2.3	1.9	2.3	2.0	2.4	2.1	1.3	1.5
of which:										
Tourist receipts[1]	0.8	0.8	0.9	0.8	1.0	0.9	1.1	0.9	0.8	0.9
Net emigrant remittances[2]	1.9	1.9	1.6	1.6	1.7	1.7	1.6	1.6	1.2	1.2
Net transportation receipts	0.6	0.7	0.7	0.6	0.8	0.7	0.9	0.8	0.5	0.6
Net interest and dividend payments	–1.8	–1.7	–1.5	–1.5	–1.6	–1.6	–1.6	–1.6	–1.2	–1.2
Current account balance	–0.5	–1.4	–0.2	0.2	0.5	0.8	0.8	0.4	0.3	–0.2
Long-term capital, net	–0.5	–1.4	1.3	1.3	–0.2	–0.1	–	–0.2		
of which:										
Repayments	(–2.3)	(–2.0)	(–2.7)	(–2.5)	(–3.1)	(–2.8)	(–3.5)	(–3.3)		
Short-term capital[3]	–0.1	0	–1.8	–1.6	–0.2	–0.2	–0.2	–		
Bilateral balances	–0.8	0	0.2	–	0.4	–	–0.4	–		
Use of Fund Credit	0.6	0.6	–	–	–	–	–	–		
Net official reserves (–increase)	1.0	1.0	0.1	0.1	–0.5	–0.5	–0.2	–0.2		

1. Gross tourist receipts. This item includes foreign-exchange receipts only through official agencies.
2. Including pensions and other private transfers.
3. Including errors and omissions.

Note: In the period January to October 1986 (1985) the trade and current balances in convertible currencies were respectively: \$–1 863 million (\$–1 161 million) and \$–177 million (\$448 million).

Source: National Bank of Yugoslavia, direct communication to the OECD.

foreign-exchange allocation system explain the big rise in import volumes (7 per cent) after continuous large declines in previous years. The invisible surplus in convertible currencies widened somewhat mainly owing to increased transportation receipts. Reflecting the need to cover the deficits of the two previous years, exports on a bilateral basis grew considerably, notably exports of ships to the USSR. At the same time, oil imports from the USSR fell from the abnormally high 1984 level. In total, the current account in non-convertible currencies moved back into surplus. The small surplus in convertible currencies permitted a net reimbursement of external debt of some $100 million and an increase of net official reserves of some $200 million.

The Economic Resolution for 1986 projected a substantial increase in net invisible receipts, more than offsetting the envisaged larger trade deficit in convertible currencies. The latter reflected the authorities' intention to support the growth of domestic demand. In the first half of 1986 the outcome was worse than expected, largely as a result of a sharp increase in imports of consumer goods and capital equipment. As export volumes declined, the trade deficit in convertible currencies increased to $1.1 billion (almost double that of a year earlier)

Table 5. **Foreign trade**

Billion dollars

	1983	1984	1985	1985 Jan.-Oct.	1986 Jan.-Oct.
Exports, total	9.7	10.2	10.6	8.3	8.0
Convertible	6.0	6.5	6.5	5.1	5.1
Non-convertible	3.7	3.7	4.1	3.2	2.9
OECD[1]	3.1	3.6	3.7	2.9	3.0
Developing countries[2]	2.0	1.7	1.5	1.2	1.2
Comecon[3]	4.5	4.9	5.4	4.2	3.8
Imports, total	11.8	11.9	12.2	9.5	9.4
Convertible	7.7	7.7	8.3	6.3	6.6
Non-convertible	4.1	4.2	3.9	3.2	2.8
OECD[1]	5.3	5.3	5.7	4.3	4.5
Developing countries[2]	2.0	2.6	2.5	2.1	1.8
Comecon[3]	4.5	4.0	4.0	3.1	3.1
Trade balance	–2.1	–1.7	–1.6	–1.2	–1.4
Convertible	–1.7	–1.2	–1.8	–1.2	–1.5
Non-convertible	–0.4	–0.5	0.2	0.0	0.1
OECD[1]	–2.2	–1.7	–2.0	–1.4	–1.5
Developing countries[2]	–	–0.9	–1.0	–0.9	–0.6
Comecon[3]	0.1	0.9	1.4	1.1	0.7
Memorandum items:					
OPEC					
Exports to	0.8	0.8	0.5	0.6	0.7
Imports from	1.0	1.8	1.4	1.4	1.2
Trade balance	–0.2	–1.0	–0.9	–0.8	–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.
2. Imports of oil from developing countries are paid through Yugoslav-USSR clearing accounts. For the first seven months of 1985 and 1986 these amounted to $0.7 billion and $0.5 billion respectively.
3. Excluding oil imports from developing countries.

Source: Federal Statistical Office, *Indeks*, National Bank of Yugoslavia and direct communication to the OECD.

despite the fall in oil prices[11]. Invisible receipts in convertible currencies measured in U.S. dollars rose appreciably reflecting the depreciation of the dollar *vis-à-vis* European currencies, which account for the bulk of these receipts. Even so, the current account in convertible currencies swung back into a small deficit. Trade in non-convertible currencies has been influenced by the marked drop in the price of oil, which has reduced considerably the capacity of oil-exporting countries (especially of the USSR) to import Yugoslav commodities on a clearing basis. This, coupled with a contraction of demand in less-developed countries, has led to a sharp fall in export volumes to non-convertible-currency countries. In order to mitigate the negative effects on exports and production, Yugoslavia has recently been importing other commodities (not included in the original clearing provisions), speeding up imports of already-agreed commodities and increasing its tonnage of oil imports.

After rising from $6½ billion in 1975 to $18¾ billion in 1981 the external debt in convertible currencies has since remained roughly stable. However, between 1981 and 1985 the burden of debt servicing increased considerably from 29 per cent to as much as 40 per cent of total current-account receipts in convertible currencies. The main factors behind this rise were:

- A small fall in current-account receipts (a sharp decline in invisible receipts more than outmatching the slight rise in the value of exports of goods);
- Rising interest payments as maturing loans were replaced by new ones at higher interest rates;
- A rising amount of amortisation, partly reflecting the shortened term-structure.

Since 1984 debt refinancing arrangements with both official creditors and commercial banks have been concluded. The Authorities have undertaken to reduce the level of the external debt over the medium-term and to maintain adequate external reserves. The objective to hold the equivalent of 2.3 billion SDRs as external reserves was almost achieved in 1985. At the end of

Table 6. **External debt**

Billion dollars

	1973	1975	1980	1981	1982	1983	1984	1985
Gross debt	4¾	6½	18¾	20	20	20½	20¼	20¾
Minus: Foreign lending	¾	¾	1½	1¾	1¾	1¾	1¾	2
Net debt in convertible currencies	4	5¾	17¼	18¾	18½	18¾	18½	18¾
of which:								
Public	3½	2¼	4½	6	6½	6¾	10¾	10¾
IMF	¼	¼	¾	1¼	1¾	2¼	2¼	2¼
IBRD	¼	½	1¼	1½	1½	1¾	2	2¼
Other	2	1½	2½	3¼	3	2¾	6½	6¼
Commercial banks	½	¾	6½	6½	6½	6½	7¾	8
Interest payments	¼	¼	1¼	2	2	1¾	1¾	2
Capital repayments	¾	1	2¼	2	2	3	3¼	3½
Debt servicing, total	1	1¼	3½	4	4	4¾	5	5½
Memorandum item:								
Debt servicing (per cent of total current account receipts in convertible currencies)	(27)	(27)	(30)	(30)	(33)	(40)	(43)	(43)

Note: The data may not add up because of rounding.
Source: National Bank of Yugoslavia.

1985 an agreement with commercial banks (which came into effect in March 1986) provided for the refinancing of all debt repayments of medium- and long-term loans of about $1.8 billion granted before 17th January 1983 and falling due between 1985 and 1988. In May 1986 official creditors agreed to refinance on favourable terms credits falling due between May 1986 and end-1988. These provisions concern officially-guaranteed commercial credits and government loans with maturities exceeding one year and concluded before 2nd December 1982 (involving some $1.1 billion)[12]. In total, debt repayments of nearly $4.8 billion due between 1986 and 1988 have been deferred.

Macroeconomic policies

Fiscal policy

In line with the objective of reviving domestic demand, the *Economic Resolution for 1985* aimed at halting the steep downward trend of real public sector expenditure. The growth rate for about one-half of total public sector expenditure in each Republic and Province was fixed at 90 per cent of the growth rate of the income in the socialised economic sector in the corresponding region. This left room for a small volume rise of defence expenditure, pensions, invalidity and sick pay, and certain welfare payments of a personal nature. The Federal budget was forecast to be roughly in balance, with total spending planned to increase by about

Table 7. **Federal budget**

	Billion dinars					Percentage change		
	1984	1985	1986 Budget	1985 Jan.-Aug.	1986 Jan.-Aug.	1985	1986 Budget	Jan.-Aug. 1986 / Jan.-Aug. 1985
Regular revenue	391.0	686.0	1 103.4	342.2	687.8	75.4	60.8	101.0
Customs duties	87.4	150.1	251.4	76.0	155.4	71.7	67.5	104.5
Basic sales tax	162.3	264.2	388.2	129.7	261.2	62.8	46.9	101.4
Contributions from republics and autonomous provinces	130.6	250.9	439.2	123.0	255.7	92.1	75.0	107.9
Other	10.7	20.8	24.2	13.5	15.5	94.4	16.4	14.8
Expenditure	388.7	693.1	1 099.2	336.5	688.7	78.3	59.2	104.7
Defence	246.6	459.6	765.0	209.8	478.0	86.4	66.4	127.8
Administration	30.5	48.3	71.6	30.7	54.5	58.4	58.6	77.5
Grants to republics and autonomous provinces	35.3	60.0	41.9	29.7	27.1	70.0	–30.2	–8.1
Investment	1.6	4.5	8.0	2.0	4.3	181.3	77.8	115.0
Grants to pension funds	73.6	106.1	189.7	58.3	118.3	44.2	78.8	102.9
Other	1.1	14.6	23.0	6.0			57.5	8.3
Balance on regular account	2.3	–7.1	4.2	5.7	–0.9			
Financial transactions								
Budget reserves	0.3	0.1	0.2					
Debt repayments and other	2.0	2.8	4.0					
National Bank of Yugoslavia	–	–10.0						
Memorandum item:								
Expenditure, per cent of GSP	6.1	6.0						

Source: Direct communication to the OECD.

56 per cent, suggesting somewhat slower growth in the rest of the public sector. Developments during the first nine months of 1985 deviated considerably from the budget largely due to the acceleration of inflation. This not only led to a much faster growth of total revenue and expenditure, but also entailed a shortfall in revenues from basic sales tax as a result of lower consumption and a shift of expenditure away from high-taxed commodities. As the latter is the major source of federal tax revenue, the Federal budget turned into deficit, despite a rise in the share of customs-duty receipts accruing to the Federal government from 44 per cent in 1984 to 50 per cent in 1985. By contrast, revenues in the rest of the public sector were growing in real terms much faster than had been planned, reflecting steeply-rising enterprise income.

In view of the above developments, the Federal authorities in October 1985 passed laws and issued directives to bring fiscal trends in line with the objectives of the Economic Resolution. In particular, basic sales-tax rates on petroleum products and certain luxury goods were increased and net transfers from the Republics and Provinces to the Federal government raised considerably. Despite these additional revenues the Federal budget was still expected to show a deficit. Subsequently, a law was passed authorising the Federal authorities to borrow up to Din. 10 billion from the National Bank of Yugoslavia and obliging public entities[13] to place their "excess" revenues in blocked accounts until the end of 1985. The latter largely explains the big increase in the surplus of the consolidated public sector accounts for 1985 as a whole.

Table 8. **Consolidated public sector accounts**[1]

	Billion dinars					Per cent	
	1981	1982	1983	1984	1985[2]	1980	1985[2]
Revenue							
Direct taxes[3]	458.6	575.7	729.9	1 054.6	2 003.9	59.8	57.5
Indirect taxes[4]	272.9	326.5	455.7	668.7	1 106.0	32.3	31.7
Other taxes and non-tax revenues	66.3	90.6	147.7	257.8	377.9	7.9	10.8
Total revenue	797.8	992.8	1 333.3	1 981.1	3 487.8	100.0	100.0
Expenditure							
National defence and administration	190.8	238.3	309.1	461.4	862.6	23.6	25.0
Education	110.8	132.6	168.1	238.6	451.4	13.7	13.1
Social security and welfare	286.6	380.8	522.2	745.3	1 363.5	36.9	39.5
Intervention in the economy	66.0	84.0	145.5	262.2	385.4	8.9	11.2
Other expenditure[5]	130.0	139.5	174.5	254.9	387.0	16.9	11.2
Total expenditure[6]	784.3	957.2	1 319.4	1 962.4	3 449.9	100.0	100.0
Balance	13.5	17.6	13.9	18.7	37.9		
Memorandum items:							
Total expenditure, per cent of GSP	35.5	32.7	32.5	31.0	29.8		
Total expenditure, per cent of GDP	32.0	30.0	29.0	28.0	27.0		

1. Includes budgets, funds and communities of interest at all levels of government; excludes the Federal Fund for the Development of Underdeveloped Regions; net of intra-public sector transfers.
2. Provisional figures.
3. Includes taxes on income and profits of enterprises and individuals, social security contributions, employers' payroll taxes and property taxes.
4. Includes taxes on goods and services and external transactions.
5. Includes housing expenditure, investment and consumption subsidies.
6. Between January and September 1986 total public expenditure increased by 116 per cent over a year earlier. The fastest-growing component was expenditure on social security and welfare which rose by 134 per cent.

Source: Direct communication to the OECD.

The fiscal objectives of the *1986 Economic Resolution* were similar to those in 1985: keep public expenditure constant in real terms; reduce taxes and contributions paid by enterprises to public entities while allowing the latter to draw on the blocked accounts (financed by the "excessive" 1985 revenues); and increase military expenditure in real terms so as to bring it to the medium-term target level of 5.2 per cent of GSP. This, coupled with the aim of a balanced Federal budget, implied a strong increase in real terms of net transfers from the Republics and Provinces to the Federal budget. But once again, partly because of higher inflation than assumed, the growth of revenues and expenditures in the first half of 1986 exceeded significantly the budget projections. Led by a sharp rise in defence expenditure, Federal spending increased by 100 per cent over a year earlier against a projected rate of 60 per cent. The rise of both revenue and especially expenditure of public entities was even faster (129 per cent), implying a substantial increase in real terms largely accounted for by the rapid growth in real average earnings and a rise in fixed investment. In order to avoid running into deficit, taxes and contributions were not reduced (contrary to original plans) and part of spending had to be financed by drawing on blocked accounts. As the growth of Federal government revenue lagged behind expenditure, the Federal budget was again running a small deficit. Another noticeable feature was that after six years of steady decline, the share of public sector expenditure in GDP rose again.

Monetary policy

In 1985, on the initial assumption of an inflation rate of 45 per cent and nominal GSP growth of 48 per cent, the monetary growth targets were set as follows: 15.1 per cent for Net Domestic Assets (NDA) (net of valuation effects)[14] and 42 per cent for M1. These were expected to be consistent with an M2 growth rate of 17.2 per cent (also net of valuation effects). In the event, all the projections were exceeded by some 2, 10 and 12 percentage points respectively. The velocity of all aggregates edged upwards. Yet, the total volume of finance was not as effectively restricted owing to a rapid expansion of inter-enterprise credit. On the interest rate front, the Authorities continued to pursue their stated objective of moving

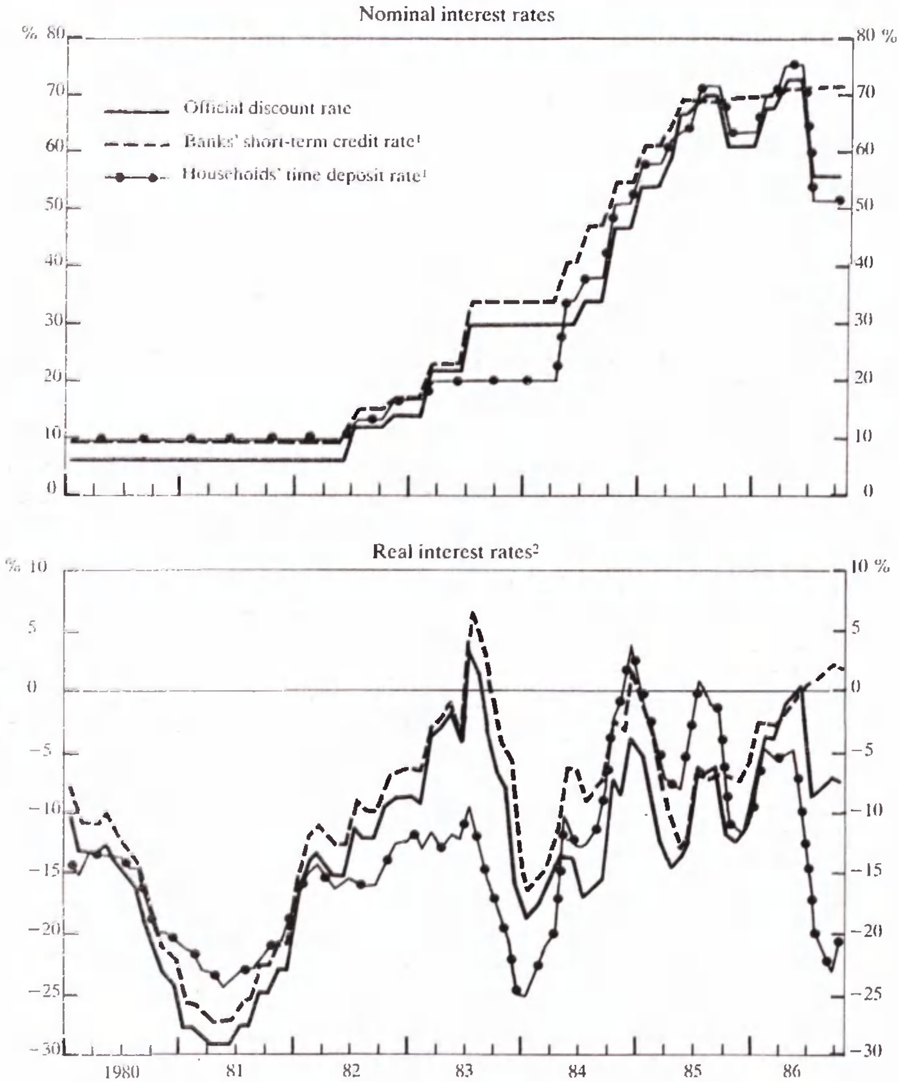
Table 9. **Selected monetary indicators**

	1985 Billion dinars	1981	1982	1983	1984	1985	Sept. 1986 / Sept. 1985
		Percentage change					
M1	1 864	26.6	26.6	20.1	43.1	46.5	96.3
M2	6 936	30.5	31.7	38.5	47.4	60.7	79.5
Net domestic assets[1]	10 342	33.3	37.1	51.9	55.2	61.5	68.5
Bank credit[2]	7 187	23.6	26.7	36.2	47.7	44.7	60.8[3]
Inter-enterprise credit[4]	6 325	32.2	41.8	57.9	56.1	73.0	
Memorandum items:							
Gross social product	11 570	41	32	39	55	79	

1. Defined as domestic credit from the banking sector plus other net assets.
2. The difference between bank credit and the official domestic credit target used in Table 21 is negligible and relates to certain foreign-exchange claims which are excluded from the domestic credit definition.
3. Estimate.
4. Trade credit received by enterprises.

Source: National Bank of Yugoslavia, *Quarterly Bulletin* and direct communication to the OECD.

Diagram 2: **Interest rates**



Notes: 1. Average of published statistics.
2. The time-deposit rate is adjusted for the year-on-year percentage change of the consumer price index. The other real rates are calculated using the year-on-year percentage change of industrial producer prices.

Source: National Bank of Yugoslavia, *Quarterly Bulletin* and OECD estimates.

gradually towards positive real interest rates[15]. Thus, the discount rate (itself equal to the three-month deposit rate) was adjusted on a quarterly basis, starting in mid-May, according to a 1 per cent mark-up on the inflation rate. With the fourth-quarter acceleration of inflation, however, all rates turned sharply negative again.

Moderately tight monetary targets were set for 1986. On the assumption of nominal GSP growth of 51 per cent, growth rates for NDA and M1 were set at 16.5 per cent and 43 per cent respectively. M2 was expected to grow by 20.4 per cent. Moreover, after a brief lapse at the beginning of 1986, the Authorities seemed determined to resume the policy of achieving positive real interest rates. In addition, the formula applying to interest rates on foreign-exchange deposits was altered so as to reduce the incentive to shift away from dinar-denominated assets[16]. In July 1986, however, monetary and credit conditions were eased significantly, notably with a view to alleviating cash-flow difficulties of enterprises. The formula for adjusting interest rates was altered so as to give more weight to projected inflation (four months). Given the temporary partial price freeze on producer prices, this implied a sharp downward adjustment in nominal rates of between 30 and 15 percentage points. Accordingly, the NBY's discount rate was reduced from 73 per cent to 56 per cent and the three-month deposit rate from 73 per cent to 42 per cent. As the underlying inflation rate accelerated significantly, these adjustments implied substantial cuts in *ex ante* real rates. In addition, in the light of the underestimation of nominal GSP growth, monetary targets were revised upwards twice – in July and again in October – raising the expected growth rates of M1 and M2 to 82.5 per cent and 45.7 per cent respectively.

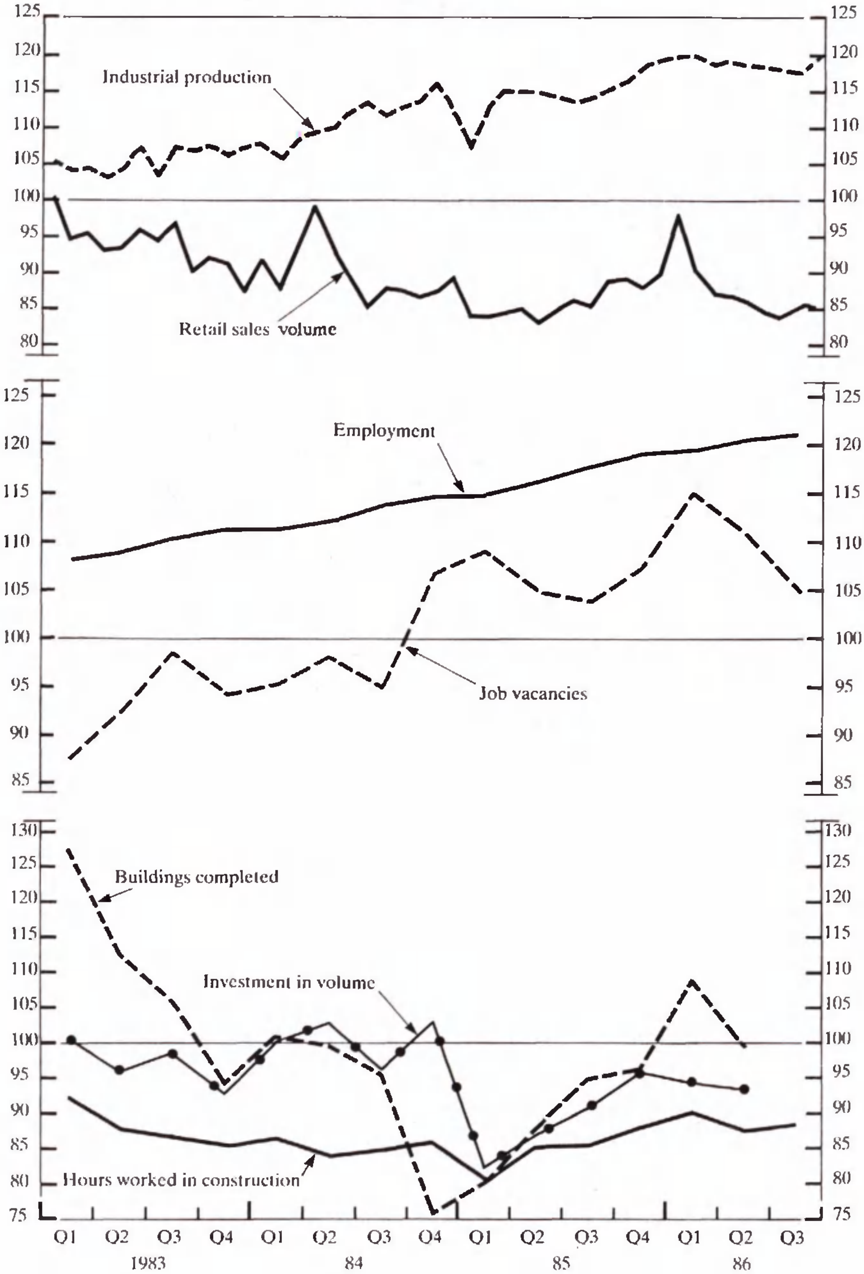
New measures

In order to reverse the unsatisfactory trends manifest since the spring of 1985, in June and July the Authorities introduced a series of measures and are at present contemplating more fundamental reforms. The principal measures taken up to the time of writing are the following:

- Directives have been issued to all levels of government and to public entities *to stop all "non-economic investment"*[17], *to reduce the growth of government consumption* by decreasing tax and especially contribution rates (so as to have smaller revenues than otherwise would be the case), and to freeze "excessive" revenues by putting them into blocked accounts until the end of 1986;
- The notification period for price increases covering about 40 per cent of industrial producer goods was extended to 120 days. (This measure is equivalent to *a partial four-month price freeze*). Orders were also given to certain enterprises which had unjustifiably increased prices to claw them back to the level prevailing on 1st March 1986. About 4 per cent of industrial producer goods were affected. Energy prices and tariffs (coal, electricity and oil derivatives) included in the producer price index were increased by almost 40 per cent and the prices of certain food items (mainly flour and bread) were raised by between 30 per cent and 100 per cent;
- Directives were issued to enforce the laws on the distribution of enterprise income and to raise the share of capital accumulation thereby encouraging a *deceleration in the growth of average earnings* during the remainder of 1986;
- The *dinar was devalued* in effective terms by 14.4 per cent in June 1986. The devaluation was designed to offset the 4.4 per cent real effective appreciation which had occurred during the previous six months and to improve (temporarily) Yugoslavia's competitive position by 10 per cent;

Diagram 3: **Conjunctural indicators**

(1980 = 100)



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

- Certain increases in tax receipts, especially those arising from the higher tariffs on energy (see above), were channelled to the Federal Secretariat for Foreign Trade for the *promotion of exports and tourism*[18]. It was also decided that exporters to the convertible currency countries would receive a higher level of tax-drawbacks than the rest;
- Banks were asked to give *priority credit to export industries, agriculture and to tourism* for the direct promotion of exports and for financing imports of materials to be processed for re-exporting;
- As noted above, in order to ease the financial situation of enterprises, the Authorities increased the weight of the forward-looking component of the formula for fixing interest rates. This implied cuts in nominal interest rates and strongly *negative real interest rates* if calculated on the basis of underlying rates of inflation. (In November 1986 the Authorities reverted to a purely backward-looking interest rate policy, see below).

Following the introduction of the partial price freeze, the annual rate of increase of consumer prices fell to 86 per cent in the five months to November compared with 107 per cent during the first half of 1986[19]. Excluding the significant rise of energy, bread and flour prices (the latter partly offset by favourable seasonal food price developments), the increase in the price of goods and services, not falling under the notification period, remained substantial (over 100 per cent, annual rate). This, together with continued slippage in prices subject to notification, suggests that underlying inflation has remained strong, with the risk of accelerating after the expiration of the price freeze in November 1986. By October the exchange-rate depreciation and measures to promote exports coupled with import restrictions had started to produce positive results. The trade deficit in convertible currencies narrowed considerably in the three months to October. Nonetheless, during the first three quarters of 1986 the current external account in convertible currencies was in a small deficit of $200 million compared with a surplus of $300 million over the same period a year earlier. Import restrictions are expected to lead to significant improvements of the current account in the last two months of 1986, sufficient to generate a surplus in convertible currencies for the year as a whole[20]. Turning to the real side, some weakening of activity was already evident towards the end of the first quarter[21]. This trend, reinforced by a more moderate growth of real average earnings, continued in the summer as witnessed by declining retail sales in volume. Given the partial price freeze and with better enforcement of the laws regarding income distribution in favour of capital accumulation, enterprises should adjust by curbing the growth of the wage and salary bill. Despite efforts to boost exports to the Comecon and developing countries, net exports may decline somewhat, imparting a negative contribution to GSP. To sum up, the important deviations of both real and nominal values from the targets of the 1986 Economic Resolution can be expected to be partly corrected in the second half of the year, with the growth of GSP in 1986 as a whole getting closer to the official target of 3.0 per cent.

The Economic Resolution for 1987

The Economic Resolution for 1987[22] aims at a continued relatively strong expansion of output, a reduction of inflation and an increase of the current external surplus in convertible currencies. These goals should be achieved in a setting of restrictive fiscal and monetary policies, continuing partial price controls and further progress on the supply side.

General and collective consumption (broadly equivalent to general government consumption) is targeted to grow at a lower rate than GSP. In line with this objective, public expenditure in the first quarter of 1987 should not exceed its fourth-quarter 1986 level. In consequence, there might be a temporary decline in real public consumption as well as a fall of real average earnings in the public sector, partly correcting the substantial real pay overruns in 1986. Money supply (M1) is targeted to increase by 4.5 per cent during the first quarter of 1987, a rate deemed consistent with a 5.5 per cent growth of domestic credit (net of valuation effects). Thereafter, the growth rate of M1 is planned to remain below that of inflation. Tighter controls on selective credits have been announced. Above all, the Authorities have renewed their commitment to the positive *real* interest rate policy. Interest rate adjustments will take place quarterly on the basis of a new, purely backward-looking formula[23]. The Authorities are committed to making timely exchange rate adjustments so as to keep the real effective exchange rate of the dinar stable[24]. In November 1986 the price control system was modified mainly by moving almost two-thirds of goods requiring 120 day notification period to the category of goods for which price rises require approval of the Federal Bureau of Prices (see Annex I). The prices of some goods were clawed back to their early spring levels. The Authorities have announced that partial price controls will be maintained in 1987.

Table 10. **Economic Resolutions and outcomes**

Percentage change[1]

	1983	1984		1985		1986		1987
	Outcome	Resolution	Outcome	Resolution	Outcome	Resolution	Outcome[2]	Resolution
Consumers' expenditure	–1.7	0.7	–1.0	2.0	0.0	2.0	4.0	1.3
Public consumption	–5.1	–1.1	–0.2	2.6	–0.3	1.9	8.0	
Fixed investment	–9.7	–10.7	–9.6	2.5	–8.0	3.2	5.0	4.5
Final domestic demand	–4.7	–2.8	–3.6	2.2	–2.4	2.3	4.7	
Stockbuilding[3]	2.8	1.3	4.7	0.6	3.2	0.4	0.4	
Total domestic demand	–1.4	–1.2	1.5	2.5	1.2	2.2	5.1	
Foreign balance[3]	2.0	1.8	2.7	1.9	1.6	0.4	–1.8	
Exports	1.4	16.0	10.4	7.7	8.2	5.0	–0.5	5.0
Imports	–5.5	7.0	–0.4	1.8	2.3	3.8	7.0	4.0
Statistical discrepancy[3]	–1.4	1.2	–2.4	–1.1	–2.2	0.4		
Social product	–0.9	2.0	1.9	3.2	0.7	3.0	3.7	3.5
of which:								
Industry	1.5	3.0	5.1	4.0	2.7	3.0	4.0	4.0
Memorandum items:								
Current external balance in convertible currencies ($ million)	(299)	(800)	(817)	(1 050)	(350)	(820)	(200)	(700)
Social sector								
Employment[4]	2.0	2.0	2.2	2.6	2.5	2.0	2.8	2.3
Productivity	–2.8	0.0	–0.1	0.8	–1.0	0.5	0.6	1.3
of which:								
Industry	–1.1	1.0	2.0	1.2	–0.7	1.0	0.6	
Real net average earnings	–10.3	0.0	–6.1	1.1	2.8	0.5	6.0	1.3

1. Volume changes are calculated on the basis of 1985 prices.
2. OECD estimates.
3. Percentage point contribution to the growth of the social product.
4. Social sector excluding agriculture.

Sources: Direct communication to the OECD and Secretariat estimates.

On the structural side, the Authorities announced the introduction in the course of 1987 of a series of measures designed to increase the role of the market. It is difficult at this stage to assess the extent to which these measures will affect developments in 1987, given the normal implementation lags and the complex and pervasive nature of existing supply rigidities. Measures such as the introduction of tax rebates for enterprises operating on three shifts should lead to an increase in labour and capital productivity already in 1987; but the effects of other measures will take longer to be felt (e.g. the encouragement of joint-venture programmes with foreign enterprises, the introduction of more rigorous methods for the evaluation of investment projects, the reappraisal of accounting rules, etc.).

GSP is planned to grow by 3.5 per cent – a marginally lower rate than in 1986. A fairly rapid expansion of fixed investment (4.5 per cent) is projected for the second year running, with growth of productive investment expected to exceed considerably that in non-economic sectors (largely general government). This would be consistent with the official directives to keep the growth of government expenditure below that of GSP. For the same reasons, general government consumption may even decline slightly, whereas private consumption is forecast to continue rising, although at a considerably slower pace than in 1986. All-in-all final domestic demand is expected to rise by about 2 per cent – less than half the rate of 1986. Taking into account the likelihood of a further sizeable contribution to growth from stockbuilding, the increase in total domestic demand is estimated to be around 3 per cent. Export growth should be stimulated by increased transfers (partly in the form of tax drawbacks) combined with credit availability at preferential interest rates and a moderate rebound in world trade. This, coupled with a postulated slower volume growth of imports, should make for a positive contribution from the real foreign balance to the expansion of output. The resulting growth of GSP is officially expected to maintain employment on a relatively steep upward trend, while leaving room for some recovery of weakish labour productivity growth. The projected increase in net volume exports, higher tourism receipts and a further amelioration of the terms of trade are officially forecast to result in a current external surplus in convertible currencies of $760 million. This compares with an officially-estimated 1986 outturn of $380 million and an original target of $820 million.

The macroeconomic goals set for 1987 appear to be ambitious, especially if viewed against recent inflationary developments. Even if the rise in real average earnings is effectively constrained to around the projected 1¼ per cent growth in productivity, private consumption could rise considerably faster as households may draw on the record level of personal savings attained in 1986. In this case both a reversal of accelerating underlying inflation and the achievement of the balance-of-payments target would seem difficult. Increased inflationary pressures may also result from conflicting claims on enterprises unless mechanisms are put into place to reduce the scope for nominal pay increases, notably in loss-making and inefficient enterprises. Moreover, as discussed above, the continuation of *partial* price controls may be counter-productive by strengthening inflationary expectations that give rise to anticipatory price increases. The balance of payments and inflationary risks would of course be reduced if a truly restrictive monetary policy stance was pursued. In this case the inevitable short-run cost of weaker real growth (by constraining domestic demand) would have to be weighed against the more permanent damage to the economy associated with high and accelerating inflation.

II. STRUCTURAL ADJUSTMENT AND LONG-TERM POLICIES

Important external adjustments were achieved in the first half of the 1980s. After several years of substantial deficits, the current balance of payments in convertible currencies turned into surplus in 1983. Between 1980 and 1985 the shift of real resources towards the external sector was equivalent to 5½ per cent of GDP. This achievement seems all the more impressive as it occurred in a relatively unfavourable international environment characterised by slow growth of world trade, high interest rates, and declining emigrant remittances and tourist receipts.

The adjustment process has been very costly both in terms of economic growth and real national income pointing to serious structural weaknesses and inefficiencies, especially at enterprise level. Following a long period of positive growth differentials until the late 1970s, GSP has since increased at a significantly slower rate than elsewhere in the OECD area. At

Table 11. **Medium-term trends**

Annual percentage change

	1979	1980	1980/1973	1985/1980	1985
Social product	7	2¼	5¾	¾	½
Total domestic demand[1]	10	–2¼	5¾	–1½	–¾
Exports	5½	11	3¼	1¼	8¼
Imports	20	–10	3¼	–6	2¼
Industrial production	7¾	4½	7¼	2¾	2¾
Productivity excluding agriculture	2½	–1¾	2	–2	–1¼
of which:					
Industry	4	1¼	3¼	–½	–¾
Employment, total	1	1¼	1	1	1½
of which:					
Excluding agriculture	4½	4½	5½	2¾	3
of which:					
Industry	4	3	4	3¼	3½
Net average earnings, nominal	19½	21	21¼	40¾	78¼
Net average earnings, real	–¾	–7¾	1½	–4¾	2¾
Consumer prices	20¼	30¼	19½	47¼	73½

1. Including statistical discrepancy.
Source: Direct communication to the OECD and OECD estimates.

the same time, and despite sluggish domestic demand, Yugoslavia has not shared in the world-wide disinflationary process. On the contrary, she has seen continuing high and, more recently, accelerating inflationary tendencies as economic agents succeeded in passing the burden of adjustment from one to another.

Against this background, it is not surprising that the improvement of the balance of payments was largely due to reductions in the volume of imports rather than to the (meagre) rise in volume exports (cumulatively –25 per cent and 8 per cent respectively between 1980 and 1985). The fall in volume imports was mainly brought about by a decline in final domestic demand and administrative controls, while the rise in volume exports suggests only modest, if any, gains in market shares. Improved economic incentives seem to have played a relatively minor role in the reallocation of resources. Political leverage involving agreements between Republics and autonomous Provinces largely explains the decline of both government consumption and fixed investment during the first half of the 1980s, the latter being also severely affected by the inability to draw on new foreign-exchange credit.

An important indicator of the unsatisfactory economic performance on the real side is the decline in labour productivity over this period. Whereas until the end of the 1970s the medium-term growth rate of productivity per man (excluding agriculture) was about 2 per cent, productivity actually declined at the same rate between 1980 and 1985. Even in industry, where production grew at about 2.8 per cent per annum over this period, output per man in 1985 was about 2 per cent below its 1980 level. These trends are even more worrying when seen against investment activity. Despite the significant real decline in fixed investment since the peak of 1979, in the first half of the 1980s its share in GDP remained substantial at 24 per cent (the average share in OECD Europe was 19 per cent). This suggests that the capital stock has continued to increase rapidly, though at a slower pace than before[25]. The significant rise in capital/labour ratios in conjunction with a fall in labour productivity denotes continuing substantial wastage of scarce resources, especially for an economy at Yugoslavia's level of development. Lack of appropriate market signals, inadequate rationing mechanisms and inefficient management and plant organisation would seem mainly responsible.

Market inefficiencies

As analysed in previous OECD Surveys[26], the fragmentation of goods and factor markets and the lack of domestic and foreign competition have widespread consequences for economic efficiency and the allocation of resources. The predominance of regional aspirations, often incompatible with the overall development needs of the economy, and the use by local interest groups of overt or covert ways of interfering with the implementation of federal economic policies in their own regions have often been criticised by the Authorities. But the absence of nation-wide rules in certain areas has greatly facilitated this development. The lack of integration and absence of a unified market is illustrated by the very small share of inter-Republican trade (between 20 and 25 per cent of each region's output), which is below the level of trade among most European countries.

The drawbacks arising from the lack of internal competition have been compounded by the virtual absence of foreign competition. Indeed, at some 6 per cent the share of final consumer goods from the convertible-currency countries in total imports is the lowest in the OECD area. This is to some extent inevitable at present given the external constraint. However, the fact that scarce foreign exchange is administratively rationed has resulted in additional distortions. On a national level, the absence of rationing by price encourages greater imports, but more importantly, hinders the expansion of potentially export-oriented industries. In addition, administrative rationing of foreign exchange reinforces the fragmentation of the domestic market as it is implemented by banks with strong regional attachments (see Part III).

The strong inflationary momentum in recent years does not only reflect the lack of competition and of financial discipline of enterprises but is also closely related to how nominal income is generated and distributed. The Authorities do not impose ceilings on nominal personal-incomes' growth. But with the aim of securing sufficient savings, rules governing the distribution of enterprise income have always been in operation. Yet, enterprises often fail to comply with these rules because they have not been defined in sufficient detail nor accompanied by appropriate incentives and penalties. These rules are sometimes also

Table 12. **Household account**[1]

	1985 Dinars billion	1980	1981	1982	1983	1984	1985
		1980 constant prices					
Net salaries and other personal income in the Social sector[2]	3 758	570.5	584.6	566.5	522.9	503.4	537.8
Social Security transfers	960	158.5	148.3	152.8	144.3	133.0	137.4
Net profits and salaries in the private sector	452	77.9	80.5	91.1	96.7	86.3	64.7
Consumption in kind	472	65.2	69.4	71.4	76.0	71.2	67.6
Remittances from abroad	601	120.5	106.2	106.8	81.8	106.4	86.0
Other income[3]	1 210	48.4	43.9	45.9	92.0	102.3	173.1
Total income	7 452	1 041.0	1 033.0	1 034.6	1 013.8	1 002.6	1 066.6
Less taxes[4] and fees	160	25.7	24.5	26.4	25.0	24.6	22.8
Disposable income	7 293	1 015.3	1 008.4	1 008.2	988.7	978.0	1 043.7
Private consumption	5 906	875.2	861.4	860.7	846.8	835.6	845.3
Savings	1 386	140.10	147.1	147.5	141.9	142.4	198.4
Savings rate (per cent)		(13.8)	(14.6)	(14.6)	(14.4)	(14.6)	(19.0)
Memorandum items:							
Including valuation effect[5]							
Disposable income		1 016.3	998.1	1 021.3	1 011.4	985.0	1 038.8
Savings		141.1	136.8	160.6	164.6	149.5	193.5
Savings rate (per cent)		(13.9)	(13.7)	(15.7)	(16.3)	(15.2)	(18.6)
Including valuation effect and inflation erosion of the value of dinar assets[6]							
Disposable income		984.0	974.6	990.4	982.8	962.9	1 007.8
Savings		108.8	113.3	129.7	136.0	127.4	162.5
Savings rate (per cent)		(11.7)	(11.6)	(13.1)	(13.8)	(13.2)	(16.2)

1. The household account is partly based on SNA definitions-OECD concepts. Non-productive services are included in private consumption while social security contributions paid by employers are excluded.
2. Taxes and contributions on wages and salaries are paid directly by enterprises and other organisations to the Government and to public entities (mainly social and welfare funds); accordingly, wages and salaries are practically net of taxes and contributions.
3. Mainly interest receipts.
4. These are taxes paid only by those earning about two and a half times the average level of earnings.
5. The increase in the value, measured in dinars, of foreign-exchange deposits resulting from *real* dinar depreciations. The annual valuation effect is equivalent to an income flow.
6. The value of net dinar assets (mainly deposits with banks) is eroded by inflation. The annual erosion is equivalent to a negative income flow.

Sources: Direct communication to the OECD and OECD estimates.

incompatible with other policy objectives. In the more recent period, in an environment of falling factor productivity, the objective of reversing the downward trend in real wages combined with the directives for enterprises to increase financial reserves resulted in competing claims on enterprise income fuelling the inflationary spiral.

Oligopolistic price fixing has been the rule until recently as national and regional price agreements tended to cover the costs of the least efficient producers[27]. Accordingly, the incentive to improve productivity and to become more efficient was not compelling for marginal producers, while more efficient enterprises were encouraged to pass oligopolistic rents onto wages and fringe benefits, rather than to use them for expanding capacity. Moreover, price agreements were very complex and time-consuming, thus diverting considerable resources away from actual production. The new law of social control on prices is designed to eliminate many of these deficiencies and strengthen the competitive forces in the system.

As discussed in more detail in Part III, financial market deficiencies combined with an ultimately accommodating monetary policy constitute an important source of excessive nominal income growth. At the root of the problem are abuses in the practice of inter-enterprise credit and valuation effects. Part of inter-enterprise credit is genuine trade credit but in recent years a growing portion has been associated with the policy of keeping afloat enterprises in financial difficulties contributing to loose financial discipline. At the same time, restrictive demand policy has been partially undermined by the failure to take fully into account the existence of large and high-yielding foreign-exchange deposits of households. Indeed, despite a substantial decline in real average earnings (by almost one-third) between 1980 and 1985, real household income declined only marginally until 1984, before rising in 1985 to a level somewhat higher than in 1980. This was primarily due to interest receipts, which measured in real terms increased in line with the real depreciation of the dinar[28]. Between 1980 and 1985 the increase in real interest receipts was equivalent to 12 per cent of real household income, thus roughly offsetting the real decline of the other income components (wage bill, social security receipts, transfers from abroad, etc.). As a result, private consumption hardly declined in the first half of the 1980s. As a share of GDP it may even have increased marginally if allowance is made for the likely underestimation of actual consumption in official statistics.

Long-term policies and institutional changes

The Stabilisation Commission's report and the Long-Term Development Plan 1986-2000 addressed many of the structural problems and institutional bottlenecks[29] besetting the Yugoslav economy. In recent years a number of important measures were introduced and more are being studied in order to improve the functioning of the economy. Particular attention has been paid to strengthening financial discipline of enterprises and raising their savings ratio.

Loss-making enterprises have become a serious problem. Their number has increased rapidly over time with losses equivalent to about 7 per cent of GSP in 1986 compared to 3 per cent of GSP in 1981[30]. Until 1984 bankruptcies were practically non-existent and loss-making enterprises remained afloat by receiving substantial transfers and subsidies from other enterprises, banks and public entities. Under these conditions the incentive to become more efficient and to restore economic viability was relatively weak. In 1985 screening of loss-making enterprises became more effective pushing up the number of bankruptcies to 61 and entailing a net loss of 1 636 jobs. The first half of 1986 saw 108 bankruptcies and a net loss of 2 200 jobs. The right of loss-making enterprises to draw funds from "joint reserves" (funds subscribed by affiliated enterprises) to cover losses will be gradually phased out by 1987. They will be obliged to borrow on commercial terms from banks (only under rehabilitation schemes) or from enterprises.

Steps have been taken to improve the financial situation of the enterprise sector as a whole. Loss-making and illiquid enterprises will have to limit the growth of wages to about one-half of the average growth of wages in the respective Republic or Province (before 1986 the growth ceiling was 70 per cent)[31]. Rehabilitation packages have been introduced to help loss-making enterprises return to "profit-making". The Republican and Provincial legislation has been changed to conform to Federal laws regarding the growth of average pay and related issues[32]. Enterprises unable to pay back their debt were previously issuing promissory notes, sometimes underwritten by other enterprises facing the same difficulties. As from 1986 promissory notes can be guaranteed only by banks. This may curb in the short-run the growth of unbacked and highly inflationary means of financing. All enterprises are now required to:

i) Revalorise their foreign-exchange liabilities at the current exchange rate[33] and to include the resulting valuation losses in current costs so as to reduce enterprise income by the same amount;

ii) Value their stocks (and the use of stocks) at current replacement costs;

iii) Treat all depreciation allowances as costs. Before, only the statutory minimum was treated as costs so that any "excess" depreciation over the latter was included in income for distribution.

In addition, in order to discourage excessive stockbuilding of raw materials and imports it was decided to shift from short-term to long-term financing. Interest payments for financing these categories of stocks will henceforth be included in current costs and not in taxable income. The net impact of these measures, however, remains unclear.

The foreign-exchange rationing system was modified in October 1985 and again in January 1986 (see Annex II). All foreign-exchange receipts have to be sold to the banking system at the official exchange rate. There are no limits regarding the purchase of foreign exchange for debt repayment and for a few other items. Before, enterprises were allowed to keep part of their export earnings in foreign exchange, and to transfer it to other enterprises with which they had business contacts or regional affinities. In effect, in a situation of scarcity this transfer was taking place at a depreciated exchange rate relative to the official one. Under the new system this premium to exporters has been eliminated[34]. At the same time, in the first half of 1986 the constant real effective exchange rate policy lagged behind[35] thereby further reducing incentives for export-oriented activities[36]. Until a more permanent system is developed, the annual right to foreign exchange for import needs is fixed in advance (late in 1985 for 1986) on the basis of the export record and imports of enterprises in the previous year.

The new system has remained fairly rigid and continues to stimulate imports rather than exports. In order to keep import rights or to increase foreign-exchange allocation rights in the following year, importers may import more than they actually need in a given period. Another problem seems to be that enterprises which do not have import rights on the basis of past records but which may be potentially dynamic exporters will not have as easy access to foreign exchange as existing importers. This tends to hinder changes in production patterns given the great dependence of production on imported raw and intermediate materials.

Since 1985 the Authorities have taken steps to reverse the earlier trend towards market fragmentation. Priority is now given to "joint development programmes". These programmes are co-ordinated on a Federal level involving the participation of enterprises, public entities, chambers of commerce, etc. So far ten programmes are in preparation and three have been finalised covering energy production and distribution, railways and telecommunications. They do not only aim at integrating more efficiently provincial and regional activities, but also at a more rational procurement and pricing policy in these areas[37]. The planning process, though remaining cumbersome, is now initiated at the Federal level taking account of the needs of the economy as a whole. Until 1984 the Federal Plan was virtually the sum of the individual Republican and Provincial plans.

The Authorities intend to reform the fiscal system over the medium term. The main objectives are: firstly, to increase the ratio of direct to indirect taxes; secondly, to increase the tax burden on households and reduce it on enterprises and thirdly, to harmonise the various tax rates and regimes across Republics and Provinces. At present, income tax on households[38] accounts for 4 per cent of total public sector receipts. Employers' contributions to public entities (calculated on the basis of the wage bill) account for about 30 per cent and total taxes on enterprises for almost 50 per cent of public sector receipts. The Authorities plan to extend the personal tax regimes to cover income from self-employment, agriculture, rents and other property income, as well as to tax foreigners (who do not pay any income tax). More progressive tax rates are envisaged. Tax rates on enterprise income differ considerably between Republics and Provinces (by a factor of 5). The objective is to have in all Republics and Provinces a uniform maximum tax rate of 2.5 per cent by 1990. Republics and lower levels of government can levy indirect taxes on both goods and services in addition to the Basic Sales Tax which is applied to goods only (50 per cent of receipts are given to the Federal budget). These indirect taxes are also planned to be harmonised leaving only limited discretionary margin to the local authorities. Given the small weight of the Federal budget in the consolidated public sector accounts (20 per cent) and the great number of lower levels of government (8 Republics and Autonomous Provinces, almost 700 local authorities and 7 000 public entities – communities of interest) the process of harmonisation will take time and require important legislative changes.

The recent policy measures and institutional reforms have failed to deal with an important problem permeating the whole economic system – the widespread and largely veiled cross-subsidisation among regions, sectors, enterprises, producers, consumers and the public sector. Administrative foreign-exchange allocation in conjunction with an overvalued exchange rate is tantamount to subsidies paid by the most efficient export-oriented producers to the least efficient and import-oriented enterprises. It should also be noted that this veiled subsidy is on the most scarce resource, foreign exchange. At the same time certain exporters receive transfers and tax drawbacks further complicating the assessment of the total net value of subsidisation involved. Similarly, price agreements keeping in operation inefficient enterprises imply income transfers within and between sectors, with the ultimate burden being carried by consumers. Fixing prices below cost entails cross-subsidisation and tends to contribute to inflationary pressure elsewhere. As discussed in Part III, important concealed income transfers between sectors are also associated with the workings of the financial system. The pervasive cross-subsidisation and massive concealed income transfers have clearly been a major impediment to a proper functioning of markets.

III. FINANCIAL MARKETS AND MONETARY POLICY

A study of the financial system of Yugoslavia provides interesting insights into the functioning of the economy, while at the same time helping to identify some fundamental weaknesses of the socio-economic and institutional structure. It is all the more relevant at the present juncture since institutional inefficiencies and lax financial discipline have been among the principal factors behind the strong inflationary pressures of recent years. In comparing the structure and performance of the Yugoslav financial market and monetary management with those of other OECD countries, it should be borne in mind that Yugoslavia still has a relatively low per capita income, that the private sector is small, while there is a large socialised sector (accounting for 87 per cent of GDP) run on the basis of self-management. It should also be noted that rapid growth has been accompanied by important institutional and policy changes in response to emerging new economic and social challenges. Indeed, there has been a continuous process of policy reforms as illustrated by the new Constitution of the mid-1970s, the Stabilisation Programme of the early 1980s and, recently, by the new government's intention to reassess policies in a number of areas.

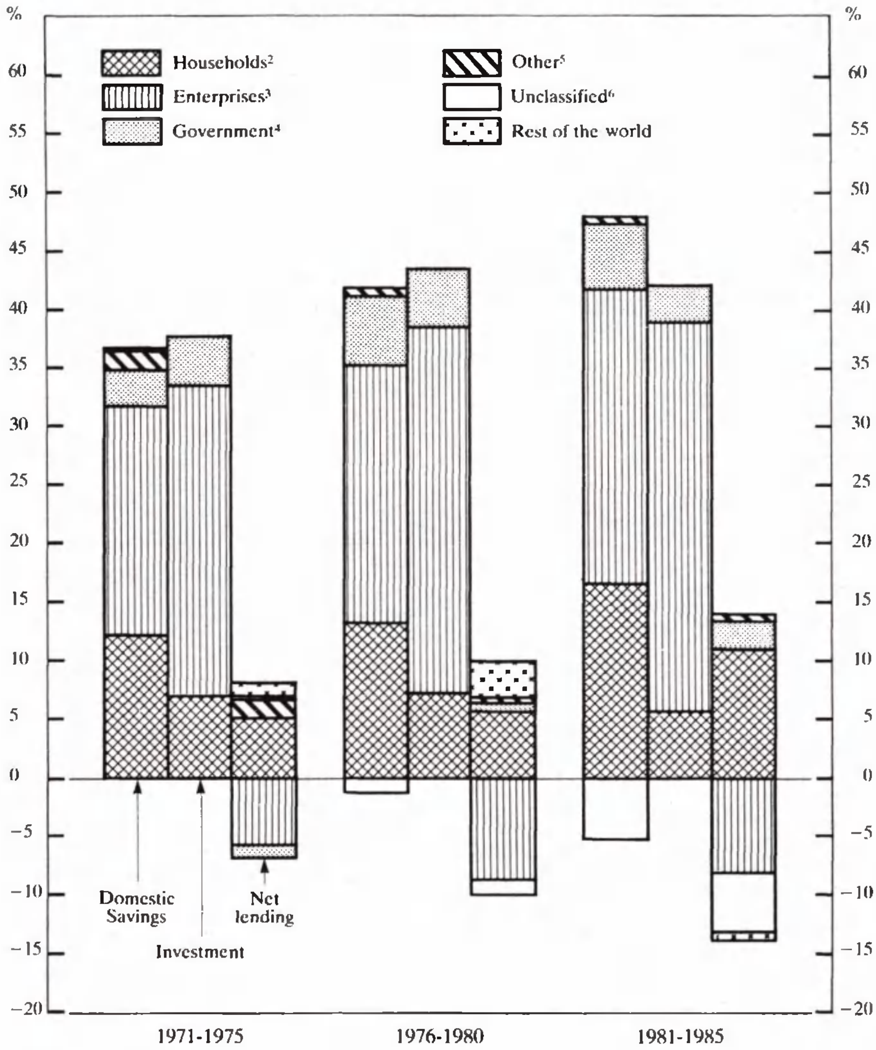
Despite frequent changes over the past thirty years, the fundamental characteristics of the financial system remain the same, with respect to its allocative functions in particular. The system has been conceived as the principal instrument for financing the rapid growth of capital stock, notably investment by enterprises. The limited degree of autonomy of the financial system *vis-à-vis* enterprises and various government bodies (especially regional authorities) has led to paying less attention to criteria of allocative efficiency and economic viability and has entailed substantial subsidies to enterprises in various (mainly concealed) forms. The difficulties of monetary management in recent years have been compounded by the existence of substantial household deposits denominated in foreign currencies and by the sizeable foreign-exchange debt of banks and enterprises. In addition, the authorities' objective of influencing both prices (interest rates) and quantities (credit ceilings), coupled with the extensive use of selective credits to priority sectors has contributed to the expansion of parallel channels of finance largely outside the control of the monetary authorities.

The structure of the financial system[39]

Yugoslavia's gross savings rate as a percentage of output is among the highest in the OECD area. Even allowing for over-valuation of stocks, the average gross savings rate has been over one-third of GSP since 1971. The households' share has been around one-third, rising towards the end of the period mainly owing to valuation effects of large holdings of foreign-exchange deposits. The contribution of general government, including welfare and educational organisations, has been over 10 per cent. During the period as a whole, gross annual savings of the rest of the world have been positive by somewhat over 1 per cent of GSP, permitting a level of gross domestic investment somewhat higher than domestic savings. Enterprises now account for some 80 per cent of investment, against an average of 70 per cent

Diagram 4: **Savings, investment and net lending by sectors[1]**

Per cent of GSP



Notes:
1. Simple arithmetic averages of annual figures.
2. Including individual producers.
3. In the socialised sector (and including Internal Banks).
4. Including "other organizations".
5. Mainly financial institutions.
6. This item includes the overestimation of enterprises' savings, and hence the underestimation of their net borrowing, arising from valuation effects on foreign-exchange liabilities.

Source: National Bank of Yugoslavie, *Quarterly Bulletin*.

since 1971. The steadily falling investment share of households (including individual producers) and that of the general government have averaged about 16 and 14 per cent respectively. The dissociation between saving and investing units is reflected in the sectoral financial balances. For the period as a whole enterprises are the only domestic net borrower to the tune of about 8 per cent or 10 per cent of GSP, depending on whether the valuation effects on their foreign-exchange debt are excluded or not. These valuation effects have been the main factor behind the apparent increasing dissociation of investment from saving decisions mirrored in the rising net balances of households and enterprises. Between 1971-1975 and 1981-1985, households' net lending doubled to some 10 per cent of GSP while enterprises' (valuation-adjusted) net borrowing rose from about 7 per cent to over 12 per cent. During the same period, the general government net balance moved from about –1.0 per cent to some 2¼ per cent of GSP, thus remaining relatively small.

Sizeable *gross* financial flows, however, are masked by these *net* lending figures. Their cumulative effect has been reflected in a ratio of unconsolidated domestic financial assets to GNP which is at levels comparable to those of higher-income countries such as Spain and Italy. Probably the most important single factor behind this high ratio is the large accumulation of financial assets by enterprises[40]. Despite their significant net borrowing position, enterprises hold close to 70 per cent of total assets of domestic non-financial sectors, almost three times the volume held by households.

Table 13. **Comparative financial indicators**

	1975				1984			
	FA[1]/GNP	FI[2]/GNP	FI/FA	Business assets/Household assets	FA/GNP	FI/GNP	FI/FA	Business assets/Household assets
Spain[3,4]	2.42	1.37	0.57	–	3.22	1.78	0.54	–
Italy[3]	3.94	1.98	0.50	0.6	3.95	1.75	0.44	0.2
Canada	4.02	1.44	0.36	0.4	4.67	1.90	0.41	0.4
Japan	4.78	1.95	0.41	1.1	6.45	1.99	0.31	0.9
Yugoslavia[5]	2.82	1.32	0.47	2.9[6]	3.46	2.00	0.58	2.8[6]

1. FA stands for total non-consolidated financial assets of domestic sectors.
2. FI stands for total non-consolidated financial assets of financial institutions.
3. Excludes trade credit.
4. Spanish figures refer to 1977 and not 1975.
5. The FA/GNP and FI/FA indices net of trade credit were, respectively 2.26 and 0.58 (1975), 2.93 and 0.68 (1984).
6. If trade credit is excluded, the ratios of business assets to household assets fall to 1.0 and 0.5 for 1975 and 1984 respectively.

Source: Spain: Banco de Espana, *Cuentas financieras de la economia espanola 1970-1984;* Italy: Banca d'Italia, *Relazione Annuale-Appendice;* Canada: Statistics Canada, *National Balance Sheet Accounts 1961-1984;* Japan: Economic Planning Agency, *Annual Report on National Accounts;* Yugoslavia: National Bank of Yugoslavia, *Quarterly Bulletin;* and OECD.

If the degree of financial deepening appears relatively high, that of financial intermediation is the highest in the sample of OECD countries selected in Table 13, as indicated by the ratio of financial institutions' unconsolidated assets to GNP and to total domestic assets. This, however, should not be interpreted as a sign of financial sophistication but rather as a consequence of the narrow spectrum of financial instruments available. Indeed, as shown in Table 14, securities account for less than 3 per cent of total assets of the domestic non-financial sector mainly because the public sector has generated small surpluses in the 1980s and enterprises can borrow more cheaply and conveniently from financial intermediaries. Common stocks are not deemed consistent with the principle of self-management. As "pooled resources"[41] of enterprises are normally held in the form of bank deposits, the only significant domestic asset outside financial institutions is direct inter-enterprise credit (mainly trade credit).

Trade credit amounts to no less than nearly 40 per cent of *total* financial assets of non-financial domestic sectors – a figure unparallelled in other OECD countries. The institutional importance of inter-enterprise credit is associated with: *a)* lack of alternative short-term financial instruments (e.g. the absence of a money market); *b)* limited internalisation of market transactions stemming from the fragmentation of production into small units (BOALs); *c)* deep-rooted excess demand for loanable funds arising from persistent negative real interest rates and restrictions on bank credit; d) abuse of selective credits and *e)* above all, absence of financial discipline. The intrinsic value of this form of asset is, in fact, difficult to gauge given the fragile financial position of the enterprise sector.

Table 14. **Assets of the non-financial domestic sector**[1]

	Per cent of dinar assets		Per cent of total assets	
	1975	1985	1975	1985
By instrument				
Dinar assets, total	100.0	100.0	89.5	80.9
Currency	7.0	4.0	6.3	3.3
Bank deposits	38.4	30.3	34.3	24.4
of which:				
Pooled resources	–	5.4	–	4.3
Securities	1.3	3.6	1.2	2.9
Direct credits[2]	49.1	48.4	44.0	39.2
of which:				
Trade credit	44.2	46.8	39.6	37.9
Other[3]	2.3	9.4	2.0	7.6
Unclassified	1.9	4.3	1.7	3.5
Foreign-exchange assets	–	–	10.5	19.1
of which:				
Bank deposits	–	–	8.4	17.6
Total	–	–	100.0	100.0
(Billion dinars)			(670.1)	(16 870.0)
By sector				
Households			22.7	26.9
Enterprises			66.8	66.5
General Government			10.5	6.6
Memorandum items:				
Short-term[4]			74.3	77.9
Long-term			25.7	22.1

1. Unconsolidated. For definition of sectors see Diagram 4.
2. Mainly inter-enterprise credit.
3. Including Internal Bank credits to banks and shares in bank funds.
4. Less than one year.

Source: National Bank of Yugoslavia, *Quarterly Bulletin.*

The second striking feature of the structure of financial assets of the non-financial domestic sector is the relatively large and growing share of foreign-exchange-denominated assets. They are almost completely held against the domestic financial sector. In 1985 they accounted for nearly one-fifth of total assets or close to 30 per cent of GSP. Over 90 per cent were in the form of bank deposits, of which more than 80 per cent held by households[42]. These bank deposits are ultimately a liability of the central bank (see below) but are not matched by an equivalent volume of reserves. Indeed, the country as a whole is a net debtor to the rest of the world to the tune of about 45 per cent of GSP. Though subject to certain minor withdrawal restrictions these deposits have been an attractive hedge against inflation. After allowing for the continuous depreciation of the domestic currency they offer a large yield differential *vis-à-vis* dinar deposits (including revaluation of capital).

Table 15. **Composition of household assets**[1]

	Per cent of dinar assets				Per cent of total assets			
	1970	1975	1980	1985	1970	1975	1980	1985
In dinars, total	100.0	100.0	100.0	100.0	81.6	66.4	54.8	42.0
Currency	44.8	40.3	35.9	27.8	36.6	26.7	20.0	11.6
Cheque accounts	1.6	1.4	3.1	6.0	1.3	1.0	1.4	2.6
Other sight deposits	36.7	37.0	40.8	34.7	30.0	24.6	22.4	14.6
Other deposits[2]	16.3	20.4	19.3	31.5	13.3	13.6	10.6	13.2
Other[3]	0.6	0.9	0.9	0.0	0.4	0.5	0.4	0.0
In foreign exchange	–	–	–	–	18.4	33.6	45.2	58.0
of which:								
Deposits	–	–	–	–	8.7	24.4	39.8	54.9
Total					100.0	100.0	100.0	100.0
(Billion dinars)					(39.1)	(151.8)	(576.7)	(4 544.4)
Memorandum item:								
Short-term					82.9	73.8	68.2	54.0

1. Including individual producers.
2. Includes time and restricted deposits.
3. Including securities and pooled resources.
Source: National Bank of Yugoslavia, *Quarterly Bulletin.*

The structure of liabilities of non-financial domestic sectors confirms the limited diversification of financial instruments and the growth of foreign-exchange obligations associated with the rise in external indebtedness (Table 16). Enterprises are practically the only non-financial debtors in foreign exchange. The share of foreign-exchange-denominated debt in total enterprise liabilities rose from over 5 per cent in 1970 to some 25 per cent in 1985, of which over half to domestic banks. Enterprises hold about one-third of the total net external debt while the rest is held by financial institutions. Taken as a whole, and despite households' large foreign-exchange holdings, the non-financial domestic sector is a net debtor in foreign exchange to the tune of over 10 per cent of GSP.

Given the distribution of foreign-exchange holdings across domestic sectors, changes in the external value of the dinar give rise to transfers of purchasing power of a magnitude

Table 16. **Liabilities of the non-financial domestic sector**[1]

	Per cent of dinar liabilities		Per cent of total liabilities	
	1975	1985	1975	1985
By instrument				
In dinars, total	100.0	100.0	89.1	75.4
Pooled resources	–	5.3	–	4.0
Securities	–	2.3	–	1.7
Bank credit	58.5	38.6	52.2	29.1
Direct credits[2]	40.1	46.7	35.7	35.1
of which:				
Trade credit	34.2	45.0	30.5	33.9
Other[3]	0.9	1.5	0.8	1.3
Unclassified	0.5	5.6	0.4	4.2
In foreign exchange	–	–	10.9	24.6
of which:				
To residents	–	–	1.7	12.4
Total	–	–	100.0	100.0
(Billion dinars)			(848.8)	(18 851.3)
By Sectors				
Households			5.3	3.4
Enterprises			81.2	94.4
General Government			13.5	2.2
Memorandum items:				
Short-term[4]			48.4	60.4
Long-term			51.6	44.1

1. Unconsolidated. For the definition of sectors see Diagram 4.
2. Mainly inter-enterprise credit.
3. Including deposit liabilities of Internal Banks of OALs.
4. Less than one year.

Source: National Bank of Yugoslavia, *Quarterly Bulletin.*

unparallelled in other OECD countries. Even disregarding the transfers associated with the revaluations of interest payments, these redistributions are bound to have significant economic implications. A 10 per cent depreciation, for instance, raises the value of households' wealth by around 2 per cent of GSP while the net foreign-exchange indebtedness of enterprises is increased, i.e. their net income flow reduced, by about 3½ per cent of GSP. The net foreign indebtedness of the economy as a whole soars by 4½ per cent of GSP. The difference is mainly absorbed by the central bank which makes a loss equivalent to some 3 per cent of GSP. Such a loss thus represents a net transfer of purchasing power to the other domestic sectors and is tantamount to a public sector deficit. As examined below in more detail, the importance of these transfers acquires particular significance in the Yugoslav context, given the gravity of the external constraint and the underlying steep inflationary trends.

The most important financial institutions in Yugoslavia are Basic and Associated Banks and the central bank – The National Bank of Yugoslavia (NBY). The latter is organised on a federal basis as are all political institutions in the country (one regional bank for each Republic and Province plus a federal bank)[43]. It performs broadly similar functions to those of central banks in other OECD countries. Its assets[44] account for about one-quarter of those of all financial institutions. As regards the evolution of its consolidated balance sheet, there are two salient features: on the liabilities side, the rise in the foreign-exchange component from less than 8 per cent in 1970 to over 70 per cent in 1985, of which about half against domestic banks; on the assets side, the even steeper increase in "other claims" from less than 1 per cent

Table 17. **Balance sheet of enterprises (socialised sector)**[1]

	Per cent of total assets			
	1970	1975	1980	1985
Assets				
In dinars, total	97.5	95.6	94.7	95.1
Cheque accounts and currency	6.2	12.2	11.9	5.9
Bank deposits[2]	23.4	14.3	19.1	13.9
of which:				
Pooled resources	–	–	5.1	6.7
Direct credits[3]	65.8	65.5	50.0	57.2
of which:				
Trade credit	65.8	59.3	48.7	56.0
Other[4]	2.1	3.5	13.7	18.1
In foreign exchange	2.5	4.5	5.3	4.9
Total	100.0	100.0	100.0	100.0
(Billion dinars)	(168.0)	(447.6)	(1 679.1)	(11 221.3)

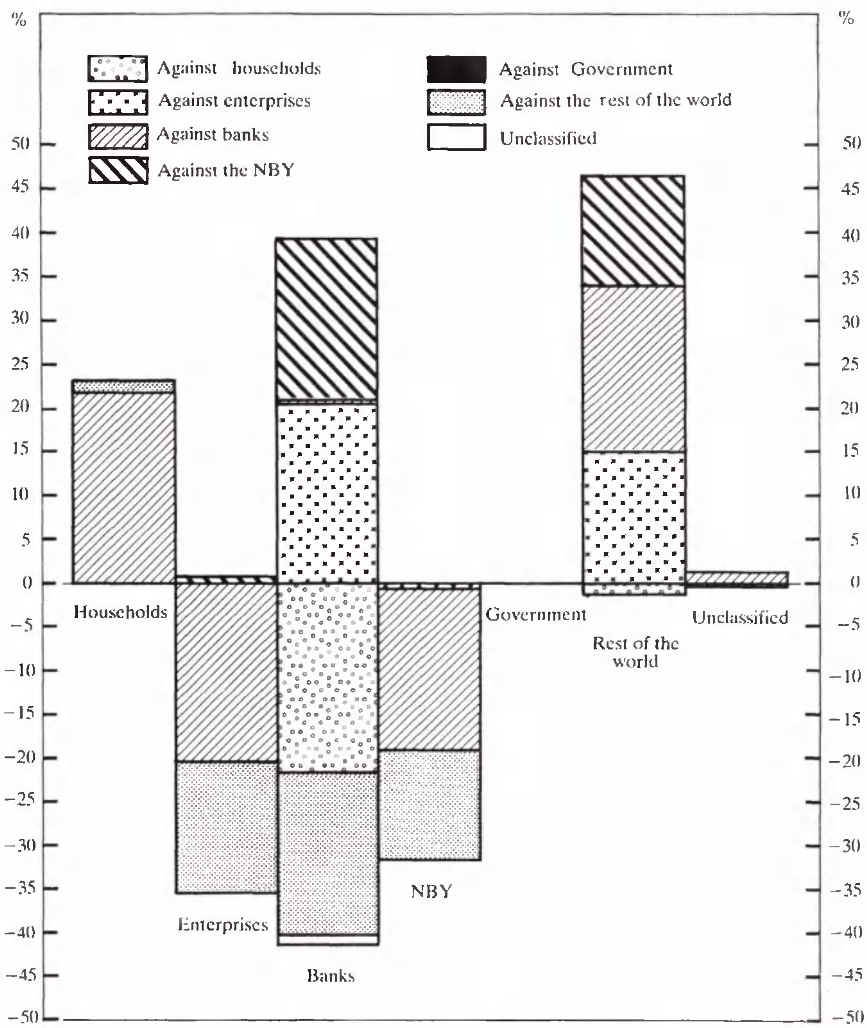
	Per cent of dinar liabilities				Per cent of total liabilities			
	1970	1975	1980	1985	1970	1975	1980	1985
Liabilities								
In dinars, total	100.0	100.0	100.0	100.0	94.7	91.9	83.9	75.0
Bank credit	52.9	54.7	50.5	38.6	50.1	50.2	42.3	25.7
of which:								
Short-term	19.8	19.2	16.0	18.4	18.8	17.7	13.4	14.5
Direct credits	36.8	38.5	37.9	47.6	34.8	38.5	31.8	35.7
of which:								
Trade credit	36.8	38.5	36.7	45.6	34.8	35.3	30.8	34.4
Pooled resources	–	–	3.8	6.6	–	–	3.1	4.1
Other[5]	10.3	6.8	7.8	7.2	9.8	6.4	6.7	9.5
In foreign exchange	–	–	–	–	5.3	8.1	16.1	25.0
of which:								
To residents	–	–	–	–	1.5	2.0	6.0	12.6
Total					100.0	100.0	100.0	100.0
(Billion dinars)					(282.0)	(689.1)	(2 573.7)	(18 365.1)
Memorandum items:								
Short-term					54.3	54.4	52.9	63.2
Long-term					45.7	45.6	47.1	36.8

1. Including Internal Banks of enterprises and transactions between financial organisations.
2. Including shares in bank funds. These amounted to 4.6, 0.3, 2.8 and 1.2 per cent in the four reference years.
3. Mainly inter-enterprise credit.
4. Including securities (4.4 per cent in 1985) and credits to banks (8.5 per cent in the same year) granted by Internal Banks.
5. Including loans from Investment Loan Funds and, since 1977, deposit liabilities of Internal Banks.
Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

to over 60 per cent during the same period. This mere book-keeping item (net of "other" short-term liabilities) largely reflects the NBY losses which result from dinar devaluations. An estimate of these losses suggests that they rose from an average of 5 per cent of GSP in the period 1980-1982 to between some 13 to 15 per cent in 1983-1985[45] having cumulated to close to 30 per cent of GSP.

Diagram 5: **The distribution of foreign-exchange assets**

Per cent of GSP, 1985
Net claims against other sectors, by sector



Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

Table 18. **Balance sheet of the National Bank of Yugoslavia**[1]

	Per cent of dinar assets				Per cent of total assets			
	1970	1975	1980	1985	1970	1975	1980	1985
Assets								
In dinars, total	100.0	100.0	100.0	100.0	91.3	82.4	92.1	87.9
Credits to banks	53.2	27.7	42.3	22.6	48.6	22.8	38.9	19.9
Credits to clients[2]	39.1	23.4	8.0	3.1	35.7	19.3	7.4	2.7
Other credits[3]	7.3	6.6	7.8	3.5	6.6	5.5	7.2	3.0
Permanent transfers[4]	–	42.1	16.1	1.7	–	34.7	14.8	1.5
Other claims[5]	0.4	0.2	25.8	69.1	0.4	0.1	23.8	60.8
In foreign exchange	–	–	–	–	8.7	17.6	7.9	12.1
of which:								
Domestic banks	–	–	–	–	0.4	0.1	0.0	2.7
Total					100.0	100.0	100.0	100.0
(Billion dinars)					(49.6)	(134.1)	(627.0)	(6 222.2)
Liabilities								
In dinars, total	100.0	100.0	100.0	100.0	91.9	83.3	50.1	34.0
Currency	36.7	41.0	42.5	30.1	30.0	31.2	18.5	7.4
Bank deposits	32.0	36.0	32.7	27.2	26.2	27.4	14.2	6.7
Other deposits[6]	20.0	11.0	9.7	8.1	26.4	15.5	19.8	11.4
Other[7]	11.3	12.0	15.1	34.6	9.3	9.2	6.6	8.5
In foreign exchange	–	–	–	–	8.1	16.7	49.9	66.0
of which:								
Domestic banks	–	–	–	–	0.0	1.3	34.6	30.7
Memorandum items:								
Net foreign-exchange position	–10.4	–7.5	–52.8	–66.6	–9.5	–6.2	–48.7	–58.5
of which:								
Foreigners	–10.6	–4.5	–14.7	–26.2	–9.7	–3.7	–13.6	–23.0
Residents	0.2	–3.0	–38.1	–40.4	0.2	–2.5	–35.1	–35.5

1. Excluding those operations of National Banks of the Republics and Autonomous Provinces with their government which do not create monetary base.
2. Mostly government.
3. Including credits to other financial institutions and quota payments to international organisations.
4. To socio-political communities and enterprises.
5. This item, net of short-term "other" liabilities, essentially reflects cumulative losses.
6. Including federal government deposits.
7. Including credits from users of social resources.

Source: National Bank of Yugoslavia, *Quarterly Bulletin.*

Basic Banks and Associated Banks have practically the monopoly of intermediation between domestic sectors. In 1985, their assets amounted to 96.5 per cent of the total assets of financial institutions excluding the NBY[46]. Basic Banks were created in 1976 as mixed (universal) banks operating both in the short and in the long end of the maturity spectrum. They have replaced a system which differentiated between commercial and investment banks, only the latter being allowed to grant credits for fixed investment. Basic Banks are founded, owned and directed almost exclusively by enterprises and, to a lesser extent, by Social Communities of Interest[47]. Governmental bodies are explicitly excluded. Basic Banks are thus non-profit oriented institutions being strongly motivated, at the limit, to satisfy enterprises' demand for credit at the lowest possible cost, subject to certain minimum solvency conditions. The banks' net income is distributed among their founders. At the end of 1985, there were 169 Basic Banks, their number having remained broadly stable since their creation. The size-distribution of these institutions indicates a moderate degree of concentration. The top five institutions account for about one-third of total consolidated assets compared with 80 cent (top four) in France and about 50 per cent (top five) in Switzerland. The largest ten banks still account for less than half. Though these banks are legally designed to operate nationwide, their activities are mostly confined to their original regions, partly as a result of their ownership structure.

Associated Banks are banks founded and managed by two or more Basic Banks. With only two exceptions, Basic Banks are members of one Associated Bank. Their main function is to improve the efficiency of Basic Banks in the financing of large projects and in foreign-exchange transactions. They also act as a clearing house for their member banks and help to economise on their liquidity holdings. Unlike Basic Banks, they cannot issue cheque accounts or accept savings deposits. There are at present nine such institutions, their combined balance sheet amounting to about 55 per cent of total consolidated bank assets. Although these banks were also originally envisaged as nationwide institutions, the extension of their operating sphere beyond regional boundaries is extremely limited. At the end of 1984, only some 15 per cent of Basic Banks were members of an Associated Bank outside their region of origin.

From 1970 to 1985, the proportion of unconsolidated liabilities of Basic and Associated Banks denominated in foreign exchange rose from almost 8 per cent to about 50 per cent, of which slightly over one-third against residents. Foreign-exchange assets have experienced a similar increase. Some one-third of these are held against domestic enterprises, around one-fourth against other domestic banks and about 10 per cent against non-residents. The rest, i.e. close to 30 per cent, is in the form of non-interest bearing deposits with the NBY held against *household* foreign-currency deposits. In exchange, banks receive an "interest-free" credit in dinars of an equivalent amount but not revalued when the dinar depreciates[48].

Since 1979 banks have been required to deposit actual foreign exchange. But when introduced in 1978, these deposits with the NBY were a mere book-keeping entry designed to relieve banks of their exposed foreign-exchange position and to transfer to the NBY losses arising from dinar depreciations. Yet, these arrangements have not eliminated losses entirely. Allowing for the cumulative expansion in dinar terms of foreign-exchange household deposits when the currency depreciates, the net return on the *fixed* interest-free dinar credit becomes progressively smaller relative to the cost of household deposits. These losses have not been taken over by the NBY. In addition, since 1970, largely as a result of regulations rationing scarce foreign exchange, the net foreign-exchange position of banks has remained negative, narrowing only from 4.4 per cent to 3.1 per cent of the dinar portfolio. Dinar depreciations have thus resulted in large losses over and above those incurred on foreign-exchange liabilities backed by deposits with the NBY. The cumulative dinar equivalent of bank losses on foreign-exchange operations has been mostly reflected in the rise in the "other-claims" item's share in total assets from about 2½ per cent to some 15 per cent (and close to 30 per cent of dinar-denominated assets). According to some estimates[49], in December 1985 cumulative losses amounted to about U.S.$1.61 billion, i.e. some 60 per cent of banks' total revenue or over 4 per cent of GSP[50]. The second salient feature of the composition of bank assets has been the marked fall in dinar credits to clients from over 85 per cent to less than one-half of the dinar-denominated portfolio and to less than 65 per cent if the "other claims" item is netted out. This decline has largely resulted from the imposition of ceilings on credit.

Table 19. **Balance sheet of banks**[1]

	Per cent of dinar assets				Per cent of total assets			
	1970	1975	1980	1985	1970	1975	1980	1985
Assets								
In dinars, total	100.0	100.0	100.0	100.0	96.5	92.4	75.2	51.5
Deposits with NBY	7.1	8.0	4.6	5.6	6.9	7.4	3.4	2.9
Credits to clients	84.3	80.9	62.3	46.2	81.3	74.8	46.9	23.8
Other claims[2]	2.5	4.8	9.3	28.7	2.4	4.3	7.0	14.8
Inter-bank claims	4.0	3.8	14.0	13.0	3.9	3.5	10.5	6.7
Other[3]	2.1	2.5	9.8	6.5	2.0	2.4	7.4	3.3
In foreign exchange	–	–	–	–	3.5	7.6	24.8	48.5
of which:								
Domestic clients	–	–	–	–	2.1	3.5	6.6	17.0
NBY	–	–	–	–	0.0	0.9	8.8	13.7
Total					100.0	100.0	100.0	100.0
(Billion dinars)					(191.9)	(489.3)	(2 457.0)	(16 710.6)
Liabilities								
In dinars, total	100.0	100.0	100.0	100.0	92.4	82.6	70.9	49.9
Deposits	36.3	46.1	38.9	35.6	33.5	38.1	27.6	17.8
Credits from NBY	13.2	7.6	16.4	15.3	12.2	6.3	11.6	7.6
Own funds	10.5	6.5	4.0	2.7	9.7	5.4	2.8	1.4
Credits from the public[4]	35.0	35.2	26.6	34.2	32.4	29.0	18.8	17.1
Other[5]	5.0	4.6	14.1	12.2	4.6	3.8	10.1	6.0
In foreign exchange	–	–	–	–	7.6	17.4	29.1	50.1
of which:								
Non-bank residents	–	–	–	–	3.8	11.0	12.8	17.8
Memorandum items:								
Net foreign-exchange position	–4.2	–10.6	–5.7	–3.0	–4.1	–9.8	–4.3	–1.6
of which:								
Foreigners	–2.3	–2.4	–10.2	–25.2	–2.2	–2.3	–7.7	–13.0
Residents	–1.9	–8.2	4.5	22.2	–1.8	–7.5	3.4	11.4

1. Including the operations of the republican National Banks with their governments and those of the Post Office Savings Bank. In 1985 they amounted, respectively, to about 1.0 and 0.8 per cent of the total portfolio.
2. Including cumulative losses arising from foreign-exchange valuation effects.
3. Including credits to other financial intermediaries, regional National Bank credits and securities.
4. Including credits from users of social resources.
5. Including inter-bank claims and credits from other financial institutions.

Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

The combined portfolio of "other financial organisations" is less than 4 per cent of that of banks. These institutions act mainly as fund collectors for banks to which they are net lenders to the extent of over 60 per cent of their total liabilities[51]. So-called "Internal Banks", while not *officially* considered financial intermediaries, are more important. They are normally established within a group of enterprises. Their main functions include the organisation of internal financing of member enterprises and the carrying out of certain banking operations to rationalise the use of the members' resources and improve their liquidity position. At the end of 1985, and after a period of rapid growth, there were 213 Internal Banks with a consolidated balance sheet of Din. 2 107.4 billion, equivalent to over 13 per cent of Basic and Associated

Banks' assets (net of inter-bank claims). Their net lending position to other financial organisations – mainly banks – was equivalent to 18 per cent of their assets (including founders' funds). Almost half of their assets was in the form of credits to their clients, while their resources were drawn through various kinds of (non-cheque) deposits and pooled resources of their members.

The only form of money market is the so-called "Yugoslav Money Market and Market for Securities" organised by the Association of Bank Organisations in Belgrade for overnight or very short-term, mainly liquidity, transactions. Its importance, though still small, has grown recently. In this market, funds are transacted at freely fluctuating rates[52].

The Authorities' intervention in the financial system

In principle, the Authorities[53] can intervene in financial markets through market-oriented instruments, i.e. through market transactions performed *voluntarily* by economic agents; explicit regulations and direct controls on agents' behaviour; and implicit arrangements or other less overt means of exerting pressure. In Yugoslavia, there are few market-oriented instruments. Direct controls are pervasive, but perhaps no more so than in a number of other OECD countries. Other uncodified means of intervention appear to be quite important, especially at the regional and local level. Though more difficult to ascertain, there is indirect evidence of tacit financial and other arrangements, especially at the regional and local level, between enterprises, banks and socio-political communities. Government bodies impose their influence on enterprises and banks in exchange for protection against competition and other economic risks, including the risk of liquidation.

Market-oriented means of intervention

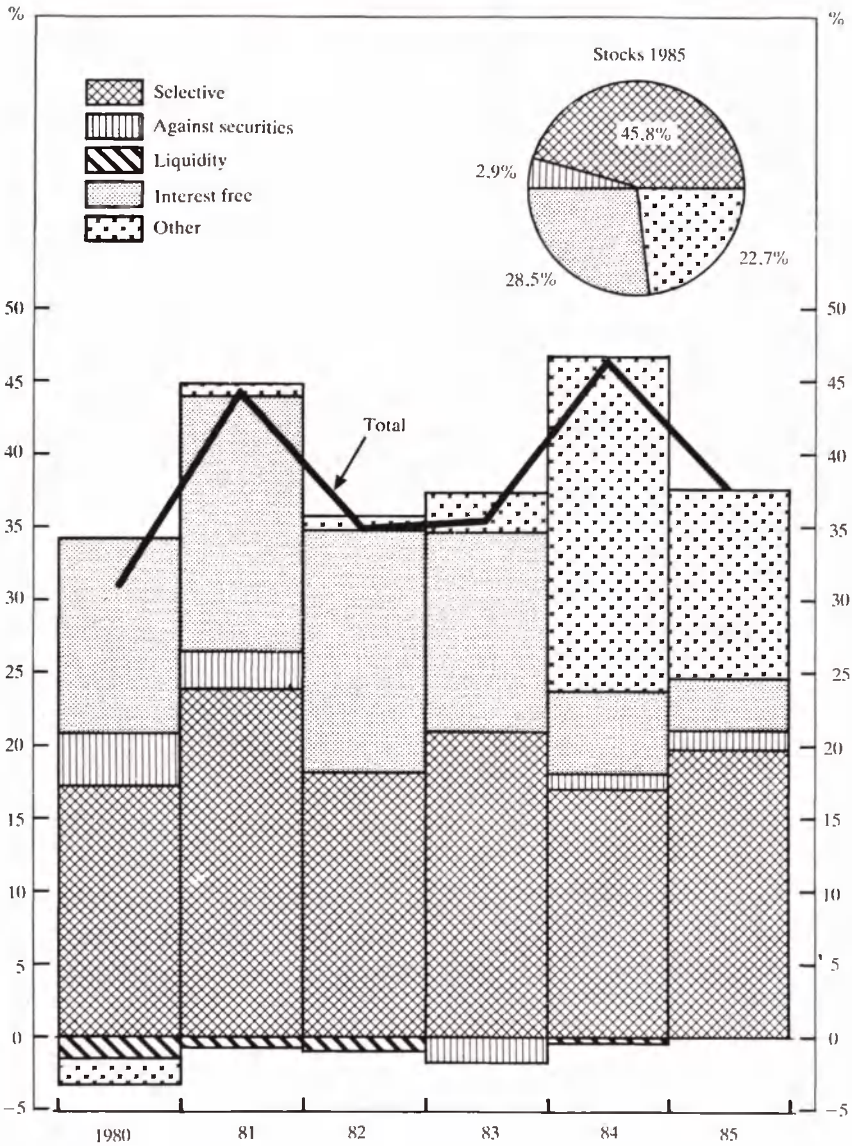
Market-oriented means of intervention include the various forms of NBY lending to (almost exclusively) banks with the exception of selective credits (see below): *a)* short-term (up to ninety-day) discounting and direct credits on the basis of certain short-term commercial bills (mainly of enterprises); *b)* temporary liquidity credits; *c)* (since 1978) "interest-free" credits in connection with foreign-exchange deposits with the NBY; *d)* "other" credits, since 1982 mostly in connection with the discounting of international liabilities of banks as part of refinancing arrangements of the external debt. The volumes of "interest-free" and "other" credits are by far the most important. They are largely demand-determined as "other" credits depend mostly on international commitments while "interest-free" credits are restricted only by the requirement that banks deposit with (withdraw from) the NBY an amount no larger than the net inflow (outflow) of households' foreign-exchange deposits. Liquidity credits are only used in emergency cases[54]. Their amount is negligible. Thus, in practice, the burden of controlling base money falls exclusively on discounting and direct credits against securities[55]. They are regulated mainly by deciding the kind and/or maximum volume of bills rediscountable (used as collateral)[56]. The discount rate, on the other hand, has not been actively used for short-run liquidity control as it was constant until 1982 and has since varied only according to a long-run schedule.

Selective credits and controls on interest rates

The NBY grants "selective" credits to banks at preferential rates to cover a varying proportion (between 25 and 100 per cent) of bank credits to "priority needs" – essentially export, agriculture and import credits. Banks must charge a mark-up of up to 2 per cent on the

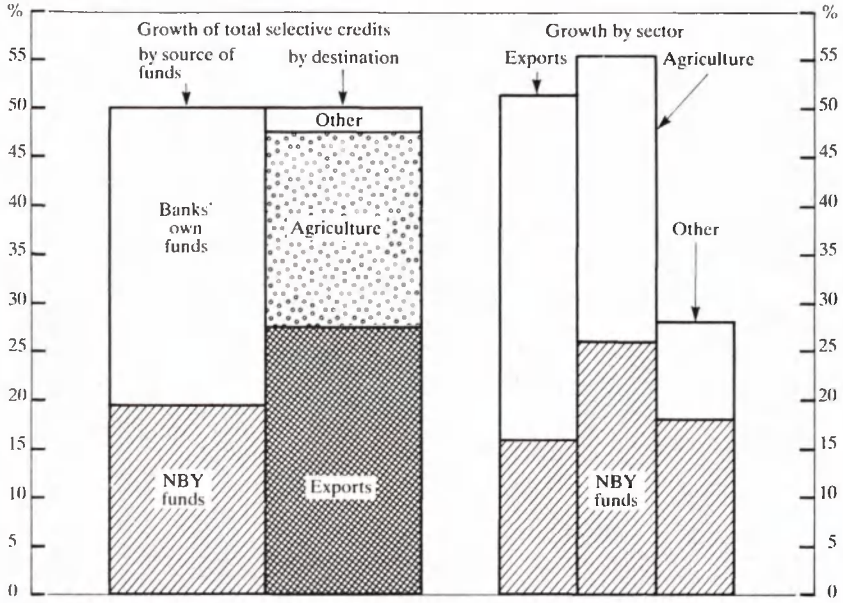
Diagram 6: **National Bank of Yugoslavia credits to banks**

Annual percentage change



Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

Diagram 7: **The anatomy of selective credits**
Annual percentage change 1980-85



Source: National Bank of Yugoslavia, *Quarterly Bulletin*, direct communication to the OECD and OECD estimates.

NBY funds but can freely set the rate on that portion of the loan financed by own funds. These bank credits are not formally guaranteed by the Authorities against default risks. Selective credits by the NBY accounted for slightly over one-third of the increase in NBY credits to financial intermediaries between 1980-85 and for over 40 per cent of the end-of-period stock. The equivalent percentages for banks' selective credits in their total dinar credits to enterprises are estimated to be approximately 60 and over 50 per cent respectively.

From the mid-1970s until early-1984, except for rates on selective credits no other bank rates were under the Authorities' direct control[57]. Banks set their deposit rates through oligopolistic self-management agreements while remaining essentially free to determine their loan rates. But when the authorities' policy aimed at attaining positive real interest rates became operative banks, *de facto*, lost their freedom to set certain key rates on their liabilities. Yet, except for brief spells *all* rates on bank dinar liabilities have remained heavily negative in real terms.

Controls on banks' domestic portfolio

Controls on bank assets are governed by three considerations: prudential control, liquidity regulation and credit policy. Until the end of 1985, i.e. before the introduction of the new Banking Law (see below) the main prudential regulations included only a minimum "solidarity fund" out of which to meet losses arising from bad loans (equal to 5 per cent of total credits to clients)[58] and two compulsory ratios limiting maturity mismatch[59]. *Households'* savings and foreign-exchange deposits are guaranteed by the Authorities. The two principal instruments aimed at preserving bank liquidity are a small liquidity ratio[60] and compulsory reserve requirements. The latter are set as a proportion of *non-household* dinar and foreign-exchange deposits (now 16.2 per cent)[61]. They can be used as a third-line liquidity reserve (at a cost)[62] provided they are met on average during the month. Neither compulsory reserve requirements nor the liquidity ratio are instruments actively used for the short-run control of monetary aggregates.

The only direct-control instruments in the context of short-run monetary management are ceilings on the percentage growth of dinar and foreign-exchange bank credit to residents. These ceilings are uniform across banks. They were introduced in 1978 as a "temporary" instrument of control but have been maintained since. Between 1983 and mid-1986 the ceilings applied to both domestic credit and net domestic assets (NDA) of banks; and in the rest of the period, only to the former[63]. The overall ceiling includes more generous sub-ceilings for various categories of priority credits (including selective credits)[64]. Other credits are then determined as a residual, given the overall target. The ceilings are calculated *net* of valuation effects, i.e. at a *fixed* nominal exchange rate.

The efficiency of the system

Allocation of savings and credit

The allocation of savings and credit to the most productive uses is seriously hindered by a number of institutional arrangements and further distorted by inadequate policies. Important inefficiencies result from the underdevelopment of non-intermediated allocation of financial resources, enterprises' ownership and management of banks, market fragmentation and the excessive influence of socio-political communites on financial institutions. In addition, a monetary policy conducive to strongly negative interest rates, the abuse of selective credits and other regulations have either exacerbated the deficiencies of the institutional set-up or else failed to provide the necessary incentives and safeguards for an improved performance of the system.

Direct, i.e. *non-intermediated* allocation of savings to users of resources is limited as users of funds and/or savers have either insufficient incentives or limited possibilities to enter transactions. Fixed-income securities are not issued since enterprises find it more convenient to borrow from their own banks and households would require higher yields on these securities to compensate for the absence of guarantee against default risk and for their lower liquidity, especially at times of high inflation. Direct long-term investment between enterprises is itself discouraged by the impossibility of acquiring an *ex ante* permanent stake in enterprises. It is not the non-existence of shares that is at fault here but the inalienable right of BOALs to split from productive organisations. This right tends to reduce the expected income and to raise the risk of the operation from the point of view of the investor. In addition, the absence of arrangements allowing for takeovers eliminates an important mechanism encouraging more efficient economic behaviour. This problem is aggravated by the non-competitive nature of product markets and by the generalised climate of financial laxity. As a result of these deficiencies, and quite apart from other barriers associated with regionalism, the non-intermediated circulation of capital is stunted and demand for credit is not sufficiently screened *at source*, i.e. at enterprise level.

These drawbacks could at least in part be compensated for by an efficient set of mechanisms for *intermediated* transfer of funds. But serious deficiencies exist on this front too. A key function of financial intermediation relative to direct transactions between ultimate lenders and borrowers, is to reduce the information costs involved in the evaluation of the expected income and risk underlying the asset supplied by the borrower. Yet, in Yugoslavia this function cannot be performed properly as the borrower has control over the financial intermediary[65]. Indeed, under such conditions, intermediation can lead to an inferior final outcome. As deposits are perceived as broadly homogeneous by ultimate lenders, the allocation of funds responds more to the distribution of enterprises' controlling power over intermediaries than to economic criteria. Since banks are founded and directed by enterprises, they are not expected to make a surplus but simply to meet costs. They tend to minimise the cost to their clients by setting relatively low deposit rates and maintaining very low spreads[66]. Rationing is the main mechanism of credit allocation and rigorous economic criteria rank low in the decision process. Banks, as a rule, grant credit only to their members while enterprises borrow only from their own banks. New and hence not yet firmly established enterprises find it difficult to obtain loans. In addition, there are strong pressures on the intermediaries to take unjustified risks (both in terms of individual loans and concentration of risks) and to roll-over loans automatically.

These operating conditions imply that incentives to follow prudent behaviour are weakened and that the underlying financial position of the institutions is precarious. Figures for 1982, for instance, indicate that about one-third of total interest payments due to banks was in arrears. An examination of the banks' balance sheet suggests that, over the period 1980-1985, the solidarity fund ratio was less than 3 per cent, i.e. significantly lower than the required 5 per cent. A fragile financial position of banks is fertile ground for the proliferation of "implicit contracts", especially at regional and local level, through which socio-political communities provide protection against insolvency and, ultimately, bankruptcy while acquiring significant influence on credit policy. The allocation of credit is thereby further distorted.

The problems originating from enterprises' control over banks would be less serious if the banking sector was truly competitive, so that more efficient borrowers could attract a higher share of available funds. Yet, there exists no price, product or territorial competition. Banks set broadly uniform deposit rates through strict nationwide self-management agreements despite the relatively low concentration of the sector. Furthermore, they do not normally extend their activities beyond regional boundaries, partly with the complicity of socio-political communities. As a result, funds tend to be geographically immobile and no integrated market for financial capital exists.

The allocational problems stemming from the confinement of capital within geographical boundaries cannot be emphasized enough. Although precise estimates are difficult to obtain, it is clear that the marginal productivity of capital varies widely across Republics and Autonomous Provinces. An admittedly rather crude proxy is the reciprocal of the incremental capital output ratio – ICOR – i.e. the ratio of the change in output to gross investment. This measure indicates wide differences across regions (Table 20). The dispersion of net "profit" rates (the ratio of accumulation to fixed assets and working capital) shows a similar picture[67]. In a freer, more competitive capital market, resources would tend to flow from low to high productivity sectors. To the extent that this implied undesirable outflows of resources from already underdeveloped areas, appropriate distributive arrangements could be designed. This might require resorting to suitable fiscal instruments which, however, are not as yet available.

An excessively accommodating monetary policy and, probably less importantly, banks' tendency to fix and maintain deposit rates below competitive levels and unresponsive to general economic conditions[68] have resulted in highly negative real interest rates. The persistence of negative real interest rates encourages primarily an excessive *level* of overall

Table 20. **Indicators of the regional dispersion of capital productivity**[1]

	1952-1965	1966-1975	1976-1983
	A. Incremental output to capital ratio[2]		
Yugoslavia[3]	100.0	100.0	100.0
Bosnia and Herzegovina	79.6	77.1	103.1
Montenegro	43.4	50.0	82.0
Croatia	110.9	107.6	89.1
Macedonia	63.3	87.3	89.8
Slovenia	118.8	134.7	113.3
Serbia	109.2	96.6	105.5
Serbia[4]	100.8	97.0	117.2
Kosovo	72.0	64.8	43.8
Vojvodina	143.1	108.9	105.5
Coefficient of variation	33.4	27.8	23.5

	1971	1975	1980	1984
	B. Net profit rates[5]			
Yugoslavia[6]	100.0	100.0	100.0	100.0
Bosnia and Herzegovina	77.8	91.0	76.6	72.4
Montenegro	55.6	80.8	59.6	48.3
Croatia	111.1	117.9	112.8	112.1
Macedonia	77.8	62.8	55.3	55.2
Slovenia	155.6	138.5	119.1	108.6
Serbia	88.9	85.9	100.0	108.6
Serbia[4]	88.9	74.4	100.0	108.6
Kosovo	33.3	35.9	48.9	55.2
Vojvodina	100.0	130.8	112.8	119.0
Coefficient of variation	39.4	36.2	31.7	33.0

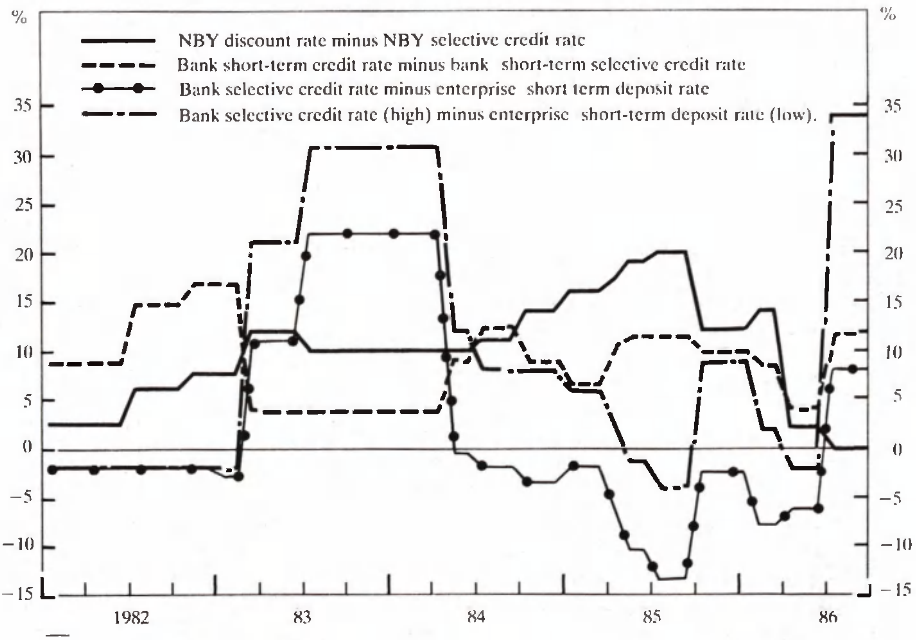
1. Neither of the two measures is accurate but the relative picture (over time and across regions) should not be significantly distorted.
2. It is the ratio of the change of output (GSP) to the volume of total investment. No disaggregated figures for investment in fixed and working capital were available.
3. The absolute values for Yugoslavia as a whole in 1952-1965, 1966-1975 and 1976-1983 were 0.36, 0.24 and 0.13 respectively.
4. Serbia excluding Kosovo and Vojvodina.
5. Approximated by the ratio of accumulation to the capital stock (including both fixed and working capital).
6. The absolute values for Yugoslavia as a whole in 1971, 1975, 1980 and 1984 were, respectively, 11.5, 7.8, 4.7 and 5.8 per cent.

Source: Federal Statistical Office, *Statisticki Godisnjak Jugoslavije*.

demand for credit and, to the extent that this is associated with an increase in its supply, it results in an inflationary expansion of aggregate demand. Projects with *negative real* returns appear attractive economic propositions as borrowers, in effect, receive real resources *free* from lenders. But besides effects on the *level* of investment, negative interest rates have also serious adverse implications for the allocation of a given volume of credit, both directly and indirectly. They affect it directly by increasing the reliance on the often-arbitrary rationing mechanisms of the system and by biasing the distribution of the investment portfolio towards long-term investments. This bias may in turn exacerbate the pressure to maintain afloat certain industries beyond their economic justifiability in the expectation of future returns that often do not materialise given the wider rigidities in the economy. They affect it indirectly by promoting the use of certain regulations (e.g. credit ceilings) which further distort credit flows (see below).

The system of selective credits appears to have outgrown the objective needs of the economy. Between 1981 and 1985 selective credits by banks for agriculture and exports accounted respectively for about one-third and one-quarter of the increase in total dinar credits to enterprises. Close to 100 per cent of credits for these purposes are eligible for subsidisation. Even allowing for the importance of the agricultural and export sectors, these figures suggest that part of the selective credits have not been used for the purposes for which they were intended. The spread between the average rate on selective credits and that on non-subsidised short-term credits has averaged some 10 percentage points, indicating strong incentives for enterprises in priority sectors to obtain the maximum amount of credit in order to on-lend it to other enterprises in the grey market. This incentive has been strengthened by the ceiling on total credit adopted for monetary policy purposes, which has either provided for a more generous treatment for priority activities or exempted them altogether. According to information provided by the Social Accounting Service of Slovenia, for instance, the average interest rate in the "grey" market in the first nine months of 1984 was 65 per cent compared to a cost of subsidised funds of the order of 25 to 40 per cent[69]. The possibility of lending profitably in the grey market probably also explains why there is little evidence of "round-tripping" despite the fact that between 1984 and mid-1986 the spread between the rates on selective credits and enterprise short-term deposits was negative. This situation resulted initially from a sharp upward adjustment in deposit rates in May 1984. It was then

Diagram 8: **Selective credits: interest rate differentials**[1]



Note: 1. Except for the official discount rate and unless otherwise stated, the figures used are averages of published statistics. Simple arithmetic differences.

Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

codified by the particular adjustment formula adopted for the achievement of positive interest rates. The mechanism envisaged an upward increase in the NBY rate on selective credits equivalent to only ¾ of a percentage point of that in the discount rate, itself in turn equal to that in the banks' three-month deposit rate.

The 1985 Banking Law

In 1985 a new Banking Law was adopted, operative as from 1986, introducing a number of reforms essentially aimed at increasing financial discipline and at reducing market fragmentation and the influence of socio-political communities. The voting power in bank assemblies, previously equal for all members, was made proportional to the funds invested. A ceiling was introduced on the concentration of loans to individual clients (10 per cent and, exceptionally, 25 per cent of *credit potential*). Banks are now required to assess the economic justifiability of projects before granting credit and are prohibited to lend to loss-making enterprises or to those who have not settled previous obligations. A detailed process of rehabilitation and, failing that, liquidation has been defined for banks in difficulty. No bank member can withdraw his deposit if a bank is declared illiquid. A minimum capital requirement has been introduced before the establishment of a bank which now must be authorised by the NBY rather than by the local socio-political community. Existing banks which do not meet the minimum requirement must be merged with another bank. Banks are now required to *assess* loan requests from non-founders. A Bill presented to Parliament in late-1986 aims at further enhancing the supervising powers of the NBY.

The main thrust of the new legislation is welcome. Yet, the prospects of success will not only depend on the implementation of, and adherence to, the new regulations but also on the enforcement of financial discipline at enterprise level and on the achievement of real interest rates more in line with the growth potential of the economy. Some doubts also remain as the law does not seem to provide proper incentives to alter behaviourial patterns, which would probably require more radical institutional reforms. Altering the voting power in the assemblies from being equal to proportional to the funds invested (for which founders are legally liable) might encourage more prudent behaviour. But it also tends to bias further the allocation of funds towards those well established enterprises which have invested more resources in the banks. The Law is fundamentally based on administrative requirements, prohibitions and penalties. If banks were truly independent of enterprises, part of the task of regulating the system would be taken over more effectively by the incentives and penalties implicit in the functioning of markets.

The effectiveness of monetary policy

The framework of monetary policy

The main target of monetary policy in Yugoslavia has always been money supply in the narrow sense, M1, defined as currency plus dinar cheque accounts[70]. Any excess supply in M1 is expected by the Authorities to have a relatively sizeable and rapid impact on the demand for goods and services, especially because of largely insensitive interest rates and the rationing of foreign exchange. Since 1978, the M1 objective has been combined with a ceiling on domestic bank credit and, between 1983 and mid-1986, on NDA. Although recognising the importance of the ceiling in limiting the expenditure of deficit-spending units, its main function has been seen as that of constraining the supply of M1. As such, it has complemented the role previously attributed exclusively to the control over monetary-base creation. As already noted above, since 1982 the Authorities have also pursued a policy of gradual achievement of positive real interest rates aimed at encouraging a more rational use of resources and at complementing the intended monetary restriction.

The acceleration of inflation in the 1980s is witness to the failure of monetary policy to constrain the growth of nominal aggregate demand. This has resulted from a combination of an ultimately accommodating macroeconomic policy, the absence of built-in stabilisers and the resilience of channels of finance outside the control of the authorities which have frustrated the restrictive components of policy.

Accommodating policy

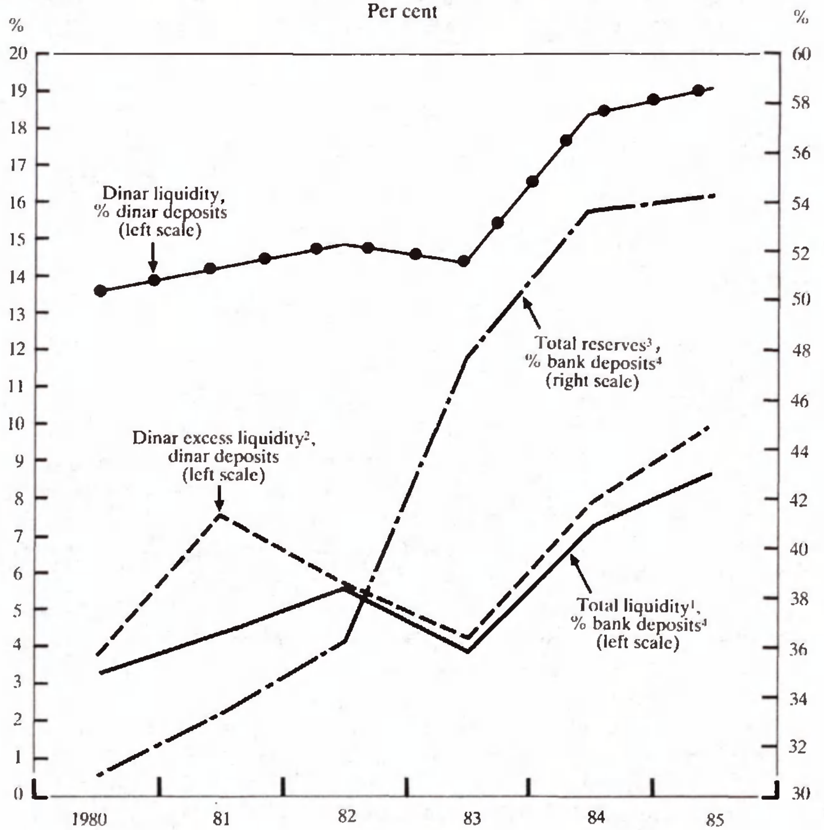
Perhaps the most important sense in which *overall* policy has been accommodating is its failure to sanction inefficient economic behaviour. Given the economic agents' expectation that they will ultimately be bailed out if the need arises, monetary policy alone cannot reasonably be expected to induce a more disciplined financial environment. Despite the precarious underlying financial position, there have been very few bankruptcies in the enterprise sector and none among financial institutions. This attitude is partly related to socio-political priorities and has been exacerbated by the strong sense of regional identity in conjunction with the concentration of loss-makers in certain regions. This problem underlies a number of more technical shortcomings in the conduct of policy.

As already noted in Part II, the Authorities have not pursued with sufficient determination and vigour the positive real interest rate policy initiated in 1982. Real rates have remained significantly negative during the period. Under such conditions, the demand for loanable funds has remained too strong, and the incentives to develop inter-enterprise channels of finance too powerful, for an effective control of nominal spending. In addition, the associated uneconomic use of resources has resulted in low or falling productivity thereby providing fertile ground for inflationary pressures.

The Authorities have generally been reluctant to raise interest rates to positive real levels on the grounds that, in an uncompetitive goods market environment, the additional financial costs can easily be shifted onto prices. Inflationary pressures would thereby be fuelled rather than damped. The problem would be compounded by high *levels* of inflation which create cashflow problems for firms by front-loading the time pattern of real repayments of a loan. While recognising that, in the short run, some additional cost pressures may be generated, it is not reasonable to expect them to last. Relative to the inflationary process, they represent once-and-for-all effects and could not be continuously translated into higher prices if a truly restrictive policy was implemented. In that case, they would imply income losses to the enterprise and, ultimately, bankruptcy. It is probably this fear which has been the most important factor inhibiting a faster upward alignment of interest rates. By comparison, the cashflow problem could be avoided by indexing the principal and charging a nominal (and hence real) interest rate[71]. A second perceived constraint on the positive real interest rate policy has been the negative effect on banks' net income resulting from pressure to maintain relatively low loan rates despite rising costs of funds. The problem was initially aggravated by the fact that loans were granted at fixed rates. Banks would, therefore, either have to accept lower net income (higher losses) or else shift the whole burden of adjustment onto new, i.e. marginal, loans. Both problems would have been less serious, however, had banks been independent of enterprises. Moreover, the former could have been avoided by regulating also loan rates while the latter should not have acted as a serious constraint lately, since most loans are now granted at variable rates.

Diagram 9: **Indicators of bank liquidity and reserves**

Per cent



Notes: 1. Official definition including giro deposits with the NBY, till money, compulsory reserves, reserve fund and foreign-exchange currency.
2. Total liquidity in dinars minus compulsory reserves and reserve fund.
3. Total liquidity plus foreign-exchange deposits with the NBY.
4. Approximated by M2 minus currency in circulation.

Source: National Bank of Yugoslavia, *Quarterly Bulletin* and OECD estimates.

In addition to, and partly in relation with, the failure to raise interest rates sufficiently, the stance of monetary policy has been undermined by the lack of effective control over monetary-base and hence liquidity creation. Selective credits and, since 1978, interest-free credits have tended to exceed the growth consistent with monetary-base objectives compatible with effective restraint. As the Authorities do not dispose of means for draining liquidity from the system, the volume of reserve money and hence the potential for credit and monetary expansion, have not been effectively constrained. It was this situation which required the introduction of the ceiling on bank credits. This, in turn, has led to a certain build-up of liquidity within the banking sector as suggested by the rise in a number of liquidity indicators and by the recent growth of the money market, where transactions would appear to take place at significantly lower interest rates[72]. Only part of the expansionary effects of this build-up is neutralised by the ceiling. The accumulation of liquidity limits pressures to raise interest rates, besides being itself the result of the low cost of NBY lending to financial institutions. It also encourages practices such as banks' guaranteeing inter-enterprise credit which contribute to the expansion of alternative channels of finance. Control over the monetary base cannot be attained unless lending to banks is granted at sufficiently high rates and unless the functions of subsidisation of certain economic activities and the process of liquidity creation are kept apart.

A degree of accommodation is also implicit in the way targets are set and implemented. Targets are defined net of valuation effects, i.e. the foreign-currency component of the aggregates is calculated in foreign exchange at the exchange rate ruling at the time when targets are set. As depreciations of the domestic currency lead to an equivalent revaluation of the foreign-exchange component of targets, any depreciation in excess of that originally anticipated and implicit in the formulation of objectives is automatically accommodated[73]. Over the period 1980-1985 such revaluations have been responsible for between 40 and almost 70 per cent of the growth of targets, depending on their precise definition. As inflation,

Table 21. **Money and credit: targets and outcomes**[1]

Percentage change

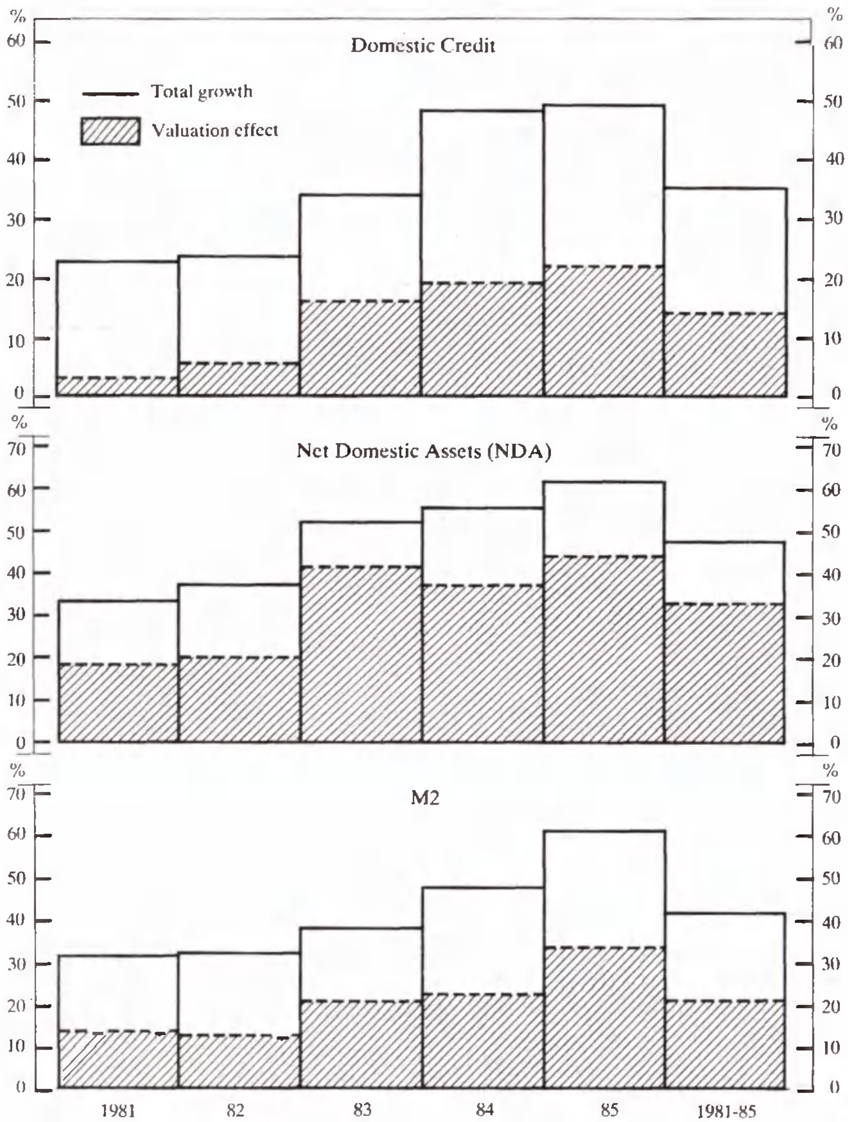
	1980	1981	1982	1983	1984[2]	1985	1986[2]
M1							
Target	22.0	22.0	17.1	18.5	32.5	42.0	43.0
Revision	26.0	28.0	16.5	15.5	42.7	36.9	82.0
Outcome	23.1	26.6	26.6	20.1	43.1	46.5	
Difference[3]	1.1	4.6	9.5	1.6	10.6	4.5	
M2							
Target[4]	21.0	22.0	16.4	15.4	15.1	17.2	20.4
Revision	25.0	26.0	15.5	7.2	15.7	15.2	45.7
Outcome		17.9	19.3	17.2	25.4	27.6	
Difference[3]		-4.1	2.9	1.8	10.3	10.4	
Net Domestic Assets							
Target	–	–	–	11.7	14.0	15.1	16.5
Revision	–	–	–	11.3	16.7	15.7	–
Outcome	–	14.9	17.1	10.5	18.2	17.5	
Difference[3]	–	–	–	-1.2	4.2	2.4	
Domestic Credit							
Target	22.0	22.0	17.4	–	19.2	22.5	24.2
Revision	26.0	28.0	16.5	14.4	24.2	22.4	38.3
Outcome		19.7	18.0	17.9	29.0	27.2	
Difference[3]		-2.3	-0.6	3.5	9.8	4.7	
Memorandum items:							
GSP							
Target	30	24	18	21	32	48	51
Outcome	33	41	32	39	55	79	
Difference	3	17	14	18	23	31	

1. Net of valuation effects.
2. Revisions for 1984 and 1986 refer to the second revision during the year. In all other years only one revision took place.
3. Outcome minus target.
4. M2 is not an official target. The figure should be interpreted as an expected growth rate consistent with other targets.

Source: Direct communication to the OECD.

and hence the rate of depreciation, have been regularly and significantly underestimated during the period (by an average of at least 18 per cent) the degree of accommodation has been considerable[74]. In addition, especially with regard to credit aggregates, there has been a tendency to revise targets upwards whenever information during the year pointed to a

Diagram 10: **Money and credit: growth rates and valuation effect**
Annual percentage change



Source: Direct communication to the OECD.

higher-than-expected nominal income growth – except perhaps when real depreciations have been engineered (1982 and 1983). Moreover, independently of the direction of the revisions, since 1982 the outcomes have regularly exceeded the targets.

The external constraint and the absence of built-in stabilisers

In view of the external constraint, in 1982-1983 the Authorities effected a real devaluation of the dinar of some 30 per cent. They have since pursued a policy aimed at stabilising the real exchange rate. This policy has implied sizeable NBY losses, given its net debtor position in foreign exchange both against foreigners and, even more importantly, against domestic residents, essentially reflecting households' foreign-exchange deposits. These losses are, in effect, equivalent to a government deficit and thus imply a sizeable transfer of purchasing power to residents regardless of whether they are associated with the external or domestic net indebtedness of the NBY (see Annex V). For any given net foreign-exchange position of the NBY, these losses are proportional to the rate of depreciation of the dinar and hence, given the constant real exchange rate policy, to the inflation differential with other countries. As noted before, they have risen from over 5 per cent of GSP in 1980-1982 to between about 13 to 15 per cent in 1983-1985. As the net foreign-exchange position *vis-à-vis* residents is about two-thirds of the overall position, an equivalent fraction of these losses represents the *direct* transfer to residents.

The figures mentioned above relate to inflation-unadjusted losses, i.e. to transfers of nominal purchasing power. An inflation adjustment requires allowance for price increases which erode the purchasing power of nominally-fixed assets (see Annex V). On foreign-exchange assets, it is *real* devaluations that imply net increases of spending power over and above those required to merely accommodate inflation. These transfers have been particularly important in 1982 and 1983 (see also Part II). On the dinar- denominated component of the NBY's balance sheet, inflation implies a subsidy to, or a tax on, the domestic sector, depending on whether the NBY is a net creditor or net debtor to that sector. In fact, in Yugoslavia domestic residents as a whole, even after excluding the government sector, are *net debtors* to the NBY, contrary to the normal case. Inflation thus erodes the value of their net liabilities. This transfer tends to rise more than proportionately with the inflation rate allowing for portfolio shifts from domestic to foreign-denominated assets encouraged by increasing depreciations of the currency. Some tentative estimates put the size of this injection of purchasing power to between 1½ to 2½ per cent of GSP annually in 1983-1985.

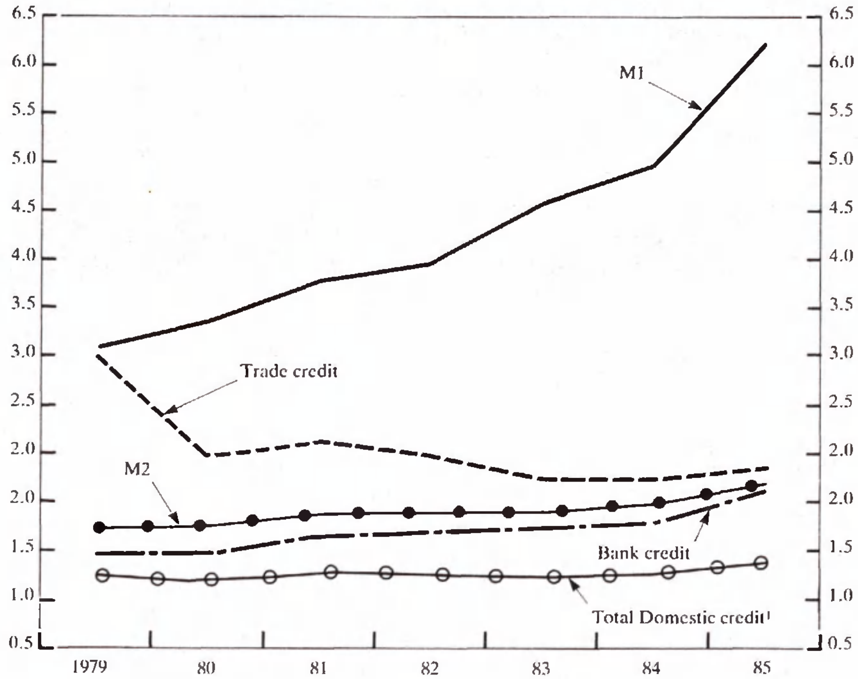
Because of the distribution of foreign-exchange holdings and other institutional and regulatory characteristics, in Yugoslavia devaluations may be relatively more inflationary than in other OECD countries while being less effective in improving the current account. Devaluations can be expansionary rather than contractionary on domestic demand if enterprises do not reduce their spending in accordance with the heavier burden of their foreign-exchange debt while households increase theirs in line with the revaluation of their foreign-currency deposits. A muted response by enterprises is likely to be encouraged by the virtual absence of bankruptcy threats and by the relatively easy access to finance – especially inter-enterprise credit. The inflationary implications of these asymmetric behavioural patterns are compounded by relatively low supply elasticities in product markets, partly associated with monopolistic behaviour. Indeed, the revaluation of the foreign-currency debt and of interest payments may itself exacerbate the cost pressures implied by rising prices of imported inputs. Given the general climate of financial laxity, enterprises may tend to raise their prices in an attempt to reduce the real burden of their liabilities and to off-load higher interest costs in the expectation that their actions will be ultimately accommodated by policy.

To the extent that expectations are fulfilled, the incentive to divert domestic production to exports is reduced. As the deficiencies of the foreign-exchange allocation system further strengthen the rigidity of production patterns as between the domestic and foreign markets (see Part II), the scope for current-account gains is significantly narrowed. Under the circumstances described above, the likelihood of a vicious circle of depreciations and inflation is particularly serious.

Alternative channels of finance

When monetary policy succeeds in restraining the volume of bank credit, its effectiveness is seriously undermined by the growth of alternative channels of finance in the form of inter-enterprise credit and, more recently, Internal Bank credit, both of which are outside the Authorities' control[75]. Diagram 11 shows that, since 1980, the rise in the ratio of GSP to domestic credit, stemming mainly from the imposition of the administrative ceiling, has been largely matched by a fall in the ratio of GSP to the volume of inter-enterprise and Internal

Diagram 11: **Money and credit: income velocity**
Ratios of GSP to end-of-period stocks



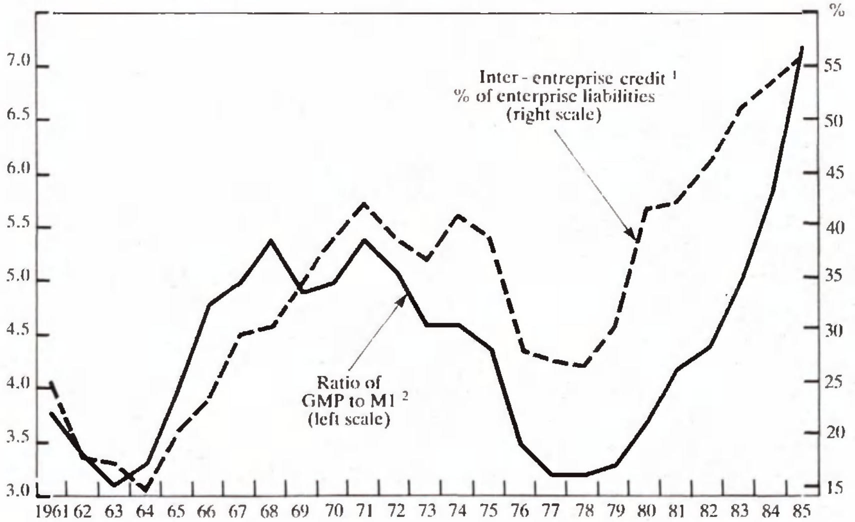
Notes: 1. Defined as bank credit plus trade credit. This approximation underestimates actual total domestic credit and its rate of growth as a rapidly growing part of bank credit is excluded from the definition (though it is included in NDA).

Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

Bank credit. As a result, the velocity of total domestic credit has risen only slightly implying that the overall volume of finance per unit of GSP has not been as effectively restricted.

The expansion of inter-enterprise credit, often granted to non-viable organisations, has been promoted by a number of factors: the generalised environment of financial laxity bred by the expectation that, ultimately, bankruptcy or other economic sanctions would not be enforced[76]; the relatively low level of interest rates on alternative investments; the abundance of liquidity within the banking sector; the abuse of selective credits; and the benign neglect with which for a long time the authorities have treated its rapid growth. The latter factor is probably related to the excessive reliance placed on M1 as an indicator of restrictive conditions. The steep rise in M1 velocity has been considered a conspicuous sign of successful monetary control. Yet, such a rise owes much more to a spontaneous decrease in the demand for this aggregate, prompted by rising expected returns on alternative assets associated with inflation, than to a restriction of its supply. It is thus a reflection of inflation rather than a factor constraining its evolution. A transactions aggregate such as M1 is essentially demand-determined and cannot be constrained by a ceiling on bank credit because of the substitutability between the various forms of bank deposits and the impossibility of restraining cash holdings of the public. Economies on M1 balances have in turn been clearly associated with the expansion of inter-enterprise credit (Diagram 12). Recently, however, the importance of inter-enterprise credit seems to have been recognised. Accordingly, the Authorities have limited to banks the right to guarantee promissory notes – previously also a prerogative of enterprises – with a view to imposing a ceiling on its volume. The success of this measure in the longer run will greatly depend on the achievement of higher real interest rates and on the enforcement of financial discipline.

Diagram 12: **M1 and inter - entreprise credit**
End-of-period stocks



Notes: 1. Trade credit.
2. GMP stands for Gross Material Product.

Source: National Bank of Yugoslavia, *Quarterly Bulletin*.

IV. CONCLUSIONS

During the first half of the 1980s economic policy was primarily directed towards strengthening the country's external position. On the face of it, achievements were quite impressive: after several years of large current balance-of-payments deficits in convertible currencies, a relatively comfortable surplus position was obtained by 1984, permitting some net repayment of external debt and an easing of severe import restrictions. In the light of these developments the Authorities felt encouraged to relax price controls and to shift policy emphasis from domestic demand restraint towards promotion of growth and higher living standards in 1985 and 1986.

In retrospect, it is clear that this relaxation of policy was premature because it had not been preceded by sufficient progress towards enhancing supply responsiveness and eradicating Yugoslavia's deep-rooted inflation-proneness. The current external surplus in convertible currencies diminished sharply in 1985, giving way to a small deficit in the first half of 1986. During the same period, inflationary pressures strengthened strongly with the year-on-year rise in consumer prices exceeding the 90 per cent mark in the second quarter of 1986.

The failure to consolidate previous balance-of-payments gains and the simultaneous acceleration of inflation cannot be attributed to excessive pressure on domestic resources. Final domestic demand did recover after four years of continuous decline, but its growth in real terms remained moderate. Likewise, real GSP expanded less than its long-run potential, leaving large and growing margins of slack in terms of unused production capacity, unemployment and underutilised labour. Furthermore, stockpiling continued at a high rate, in spite of the exorbitantly high levels of existing inventories.

The relapse into a stabilisation crisis after a relatively short period of domestic demand recovery is a clear demonstration that, despite the efforts made to enhance efficiency, the Yugoslav economy is still beset by fundamental institutional and structural weaknesses which prevent the restoration of a satisfactory and sustainable non-inflationary growth path. The Authorities seem to be aware of the urgent need to go well beyond the measures already taken to improve the functioning of the economy and the efficacy of policies. The present Government is actively studying or has submitted to the Federal Assembly various reform projects designed to strengthen the operation of goods and factor markets, putting into place automatic mechanisms of penalties for economic failure and rewards for economic efficiency. Both the size and the number of imbalances call for co-ordinated action in a number of areas. Indeed, one of the earlier policy errors was the under-rating and consequent neglect of the interdependence of distortions in the system. Only a comprehensive and consistent approach can be expected to produce permanent results.

A lasting reduction of inflation is the most urgent issue. Yugoslavia has not shared in the disinflationary experience of the 1980s of other OECD countries. There are many reasons for this, including:

- A high degree of market segmentation and the associated lack of competition;
- The absence of financial discipline of enterprises and the related low economic efficiency, reflecting the lack of appropriate market (or policy) incentives and disincentives;
- Insufficient monetary control over the (inflated) growth of nominal income and demand, associated with the excessive extension of selective crediting, negative real interest rates, unchecked growth of inter-enterprise credit, and failure to take into account the implications of large holdings of foreign-currency-denominated bank deposits by households.

Measures have begun to be taken to tackle some of these basic deficiencies and weaknesses.

- The Authorities are gradually abandoning the policy of price agreements and have also been harmonising a few administered prices across Republics and Provinces. It is desirable that this process be reinforced not only by abolishing officially recognised agreements, but also by strengthening the powers of the Federal Office of Prices so as to prevent less overt forms of price collusion and other impediments to the free movement of goods and services.
- The promotion of Joint Development Programmes covering a number of enterprises across Republics and Provinces should contribute to the rationalisation of investment plans, to greater efficiency and better pricing policies.
- The expansion of joint-venture arrangements should promote inter-Republican trade and capital movements and the development of a more unified national market. It is to be hoped that such arrangements will eventually also enable enterprises to acquire permanent stakes in other enterprises.
- Changes in the tax system aimed at introducing nation-wide criteria for taxation should help to reduce market segmentation.

Financial discipline by enterprises is likely to be strengthened by the restrictions introduced on the drawing on certain "external" funds to cover losses, by the ceilings imposed on the growth of average earnings of illiquid or loss-making enterprises and, above all, by the present policy of moving towards positive real interest rates. Positive real interest should reduce the large proportion of investible funds absorbed in the past by projects with low or negative real rates of return. In conjunction with more appropriate accounting and tax rules, they should help to cut the excessively high level of stocks, thereby putting downward pressure on prices. Since at current and foreseeable rates of inflation a quick move towards positive real interest rates would inevitably increase the financial burden of enterprises, it is important to distinguish short-run cashflow difficulties from losses due to non-viability of enterprises. Indexing the principal of loans and charging an interest rate is one formula which offers this advantage.

A monetary policy more successful in constraining the growth of nominal income would certainly help to enforce greater financial discipline of enterprises. But monetary policy cannot reasonably be expected to induce a more disciplined financial environment without plant closures and the ultimate threat of bankruptcy. Attainment of positive real interest rates should be accompanied by effective control over liquidity creation. This goal cannot be achieved unless the functions of liquidity creation and subsidisation of certain economic activities are kept apart. To the extent that selective credits from the central bank are considered an indispensable feature of the subsidisation system, they should be principally financed through liquidity-absorbing budgetary or central bank operations, so as to prevent excessive money creation.

Monetary policy would become more effective in combatting inflation if the specifics of the Yugoslav financial system were taken fully into account. In particular, monetary targets should allow for valuation effects arising from the increase in the dinar value of foreign-currency-denominated household deposits in periods of large dinar depreciations. To the extent that valuation effects have resulted from higher inflation than the Authorities had allowed for in their macroeconomic projections, the monetary accommodation in effect permits an inflation drift. Valuation effects also raise another important issue, which challenges a basic tenet of Yugoslav economic policy, namely the fiscal orthodoxy that public sector budgets should balance. There has been little recognition that the sizeable losses of the National Bank of Yugoslavia in the 1980s are tantamount to sustained government deficits. These losses stem mainly from valuation losses *vis-à-vis* both residents and foreigners, implying substantial (direct and indirect) transfers of purchasing power to the rest of the economy. This rise in purchasing power has largely neutralised the effect of the restrictive fiscal stance reflected in the marked decline of the government expenditure share in GDP.

The task of better inflation control would be facilitated if some of the deficiencies in the mechanisms for the allocation of financial resources, analysed in Part III of the present Survey, were removed. A Banking Law passed in 1985 aimed at correcting certain weaknesses of the financial system. But since the Law is largely based on administrative rules and prohibitions it fails to provide the necessary incentives for economic agents to alter behaviourial patterns and, thus, tackles symptoms rather than underlying causes. Banks, which enjoy a *de facto* monopoly in the financial system, are still owned and directed by enterprises. Thus the allocation of funds depends more on the controlling power of enterprises than on sound economic criteria, including proper risk assessment. These deficiencies have been exacerbated by the lack of price, service and territorial competition between banks. The economic function of intermediation should be better recognised. If banks were independent of enterprises, catering for both borrowers and depositors, a more competitive environment would be created. Banks would be encouraged to broaden the scope of their operations beyond regional boundaries and enterprises to diversify their sources of financial capital. In addition, banks' responsiveness to monetary policy would be increased.

Inadequate policies have aggravated the institutional weaknesses in the allocation of financial resources, notably the over-sized selective credit system and rigid ceilings on bank credit. A large part of selective credits are diverted from their original purposes and used to feed the grey market and inter-enterprise credit. An important reduction in these credits may be possible without impinging on the real needs of the sectors for which they are destined. Better control over liquidity creation and higher real interest rates would reduce the abnormal growth of inter-enterprise credit, which has often frustrated official intentions to implement a restrictive monetary policy. Inter-enterprise credit would thus become a normal and welcome feature of the system rather than being a reflection of its underlying weaknesses. Under such conditions, credit ceilings could be removed, leading to gains in terms of competition and efficiency of credit allocation. If credit ceilings for some types of operation are deemed necessary, they should be rendered more flexible so as to reduce their negative microeconomic implications.

Lower inflation and increased allocative efficiency would help the achievement of Yugoslavia's second major goal: maintaining the current external account in convertible currency in surplus so as to reduce the large foreign debt. The continuing fragility of the balance of payments has been underlined by the fact that after six years of stabilisation policies and despite falling energy prices, the Authorities in 1986 had to resort to additional administrative import controls and financial and fiscal support to exports to prevent the current external account from sliding into deficit. Neither the composition of production nor the cost and quality of products has improved sufficiently to ensure a rapid expansion of export-oriented sectors. The present pattern of demand and structure of production reinforced by inappropriate relative prices and the absence of foreign competition continues to strengthen the domestic orientation of production. Under these conditions, it will be extremely difficult to lift the external constraint, as there are limits to import substitution. Wide divergences exist between priorities based on relative scarcities on a nationwide level and incorrect market signals to individual producers.

Allocative inefficiencies also stem from the present system of foreign-exchange allocation which, in the absence of rationing by price, promotes imports rather than exports. The Authorities aim at making the dinar fully convertible but obviously have to move gradually towards complete liberalisation of exchange markets. Until 1985 exporters enjoyed the right to dispose freely of part of their foreign earnings and this induced them to expand exports. But as transactions were carried out on a regional basis, market fragmentation was reinforced. The phasing-out of the cumbersome system of foreign-exchange allocation would stimulate competition from imports, inducing enterprises to become more efficient, and improving the quality of their products.

It is generally recognised that without important policy changes it will be difficult for the Yugoslav economy to break the vicious circle of stagflation and remove the balance-of-payments constraint. New long-term policy measures are planned to be announced in the near future. It is to be hoped that these will address the fundamental structural and institutional rigidities which have been responsible for the present difficulties. However, given their intricate nature and the complexity of the issues involved, results will take time to show up. In the meantime inflation risks accelerating further, making adjustments increasingly difficult and more costly than at present. Indeed, in order to dampen rising inflationary expectations and to arrest speculative forces, it seems imperative to bring inflation under immediate control. As a temporary measure, severe restraint on the growth of *nominal* earnings would seem appropriate. But this measure should serve to accelerate the introduction of more fundamental reforms, without which a permanent reduction of inflation and a return to self-sustained growth cannot be realised.

NOTES AND REFERENCES

1. The previous annual review of Yugoslavia by the Economic and Development Review Committee took place in November 1984.
2. Unless otherwise stated inflation refers to consumer prices (cost of living in Yugoslav statistics).
3. Public expenditure is normally directly dependent on revenues. The general rule is that the various public budgets and accounts should not have surpluses or deficits, and if these arise they should be corrected in the following fiscal year. Sluggish private consumption combined with a shift of demand away from high-taxed goods largely explain the shortfall in public sector revenues in the first half of 1985, in turn affecting public consumption in real terms.
4. Stockbuilding amounted to 7 per cent of GDP in 1980 and some 20 per cent in 1985. Already in 1980 it was about four times as high as in most OECD countries. The present level is by all standards excessive and in a large measure reflects over-valuations by enterprises. It is interesting to note in this context that the positive contribution of stockbuilding to growth since 1980 has been largely offset by negative statistical discrepancies between GSP demand-side and production-side estimates. Many enterprises include unsaleable or obsolete products in stocks so as to inflate the value of their production. In addition, the high level of stockbuilding may also reflect an underestimation of other domestic-demand components, notably private consumption. Even allowing for these factors, however, the level of stockbuilding is much higher than in other OECD countries. This is due, firstly, to the inefficient structure of production and trade associated with the fragmentation of the market; secondly, to inflation-induced gains from speculative stockbuilding (financed at negative real interest rates and giving rise to an excessive payout of wages); and thirdly, to import restrictions which promote precautionary stockbuilding so as not to be short of materials if imports are administratively reduced.
5. Total domestic demand, including a positive contribution from stockbuilding of 3 per cent in terms of GSP, is reported to have grown by 1.1 per cent. However, allowing for the large statistical discrepancy between the output and demand measures of GSP the level of total domestic demand appears to have fallen again in real terms.
6. In the two years to 1985 about 100 000 new jobs were created in the non-agricultural private sector. In the socialised sector, which employs thirteen times as many persons, employment increased by 266 000. The increase in employment in the private sector seems to be even bigger than recorded in official statistics as a growing number of people reportedly work there without registering.
7. According to official Yugoslav statistics the unemployment rate in 1985 amounted to as much as 14 per cent. There are several reasons suggesting that the actual slack in the labour market is smaller: firstly, it may take up to six months before a person is deleted from the unemployment register; secondly, many students register as unemployed so as to be able to find a job more easily once they leave school, and thirdly, many people already employed in the private sector (officially or in the underground economy) seek a job in the socialised sector.
8. The year-on-year rise of consumer prices was 41 per cent in 1980 and 46 per cent at the end of 1984. On the basis of three half-year moving averages, the fluctuations of the rise in the consumer price index are fairly small. On a six-monthly basis the fluctuations are relatively large reflecting discontinuous price controls, irregular changes in administered prices and the marked real effective devaluation in 1982-83.

9. See Annex I on the "Price-control regimes".

10. Between July 1985 and January 1986 the annual rate of increase of agricultural producer prices reached 130 per cent compared with 41 per cent during the preceding six months.

11. About one-half of oil imports is paid in convertible currencies. For reasons not yet clarified, the decline in the price of imported oil in convertible currencies seems to have been considerably smaller than generally elsewhere. It has been estimated that due to the fall in oil prices, the net saving in convertible currencies in 1986 will be around $500 million.

12. According to the agreements 85 per cent of repayments due between 16th May 1986 and 15th May 1987 will be refinanced, with repayments (ten in total) starting on 30th April 1991 and finishing on 31st October 1995. For repayments due between 16th May 1987 and 31st March 1988 similar repayments terms are envisaged: repayments (ten in all) will start on 31st March 1992 and terminate on 30th September 1996. However, if economic conditions do not develop satisfactorily, less than 85 per cent of the principal may be refinanced. Finally, for repayments due between 1st April 1988 and end-1988, refinancing arrangements should also be set in place on similar terms provided that certain economic-performance criteria are met.

13. Public entities denote "self-managed communities of interest" on local, regional, provincial and Republican levels responsible for education, health, social welfare and other social security provisions. They are financed by contributions paid by enterprises on the basis of their wage bill.

14. The increase in dinars of the value of both foreign-exchange deposits of households and foreign-exchange liabilities of enterprises that results from dinar depreciations.

15. The Authorities had set themselves a final goal for May 1985 of a three-month deposit rate (to be applied both to households and enterprises) equal to 1 percentage point above the inflation rate measured by the year-on-year growth of industrial producer prices. Banks concluded a self-management agreement incorporating this formula and also establishing other deposit rates as fixed mark-ups on the three-month deposit rate. These were equal to 5 and 8 percentage points for one-year and two-year deposits respectively.

16. Until 1986, interest rates on foreign-exchange sight and time deposits were a constant 7.5 per cent and 9.0 per cent independently of the rate paid in the country of origin. The new formula set the interest rate as a mark-up on that prevailing in the country of origin. The premium is equal to 0.5, 1 and 2 percentage points for three-month, one-year and two- or over two-year deposits respectively. Since 1984 interest to residents has been paid exclusively in dinars at current market rates.

17. Investment in non-economic sectors refers to buildings and equipment for the administration, schools, hospitals, athletic grounds, cultural activities, housing undertaken by the general governments for its employees, etc.

18. Nearly 50 per cent of customs-duty receipts are transferred to exporters in the form of custom drawbacks and subsidies.

19. During the four months to October 1986 there was a small slippage in the price of goods under the notification period. In September and October the annualised rate of increase of consumer prices reached 133 per cent and that of industrial producer prices 68 per cent.

20. Despite a net gain of about $500 million from the decline in the oil bill, the expected surplus is considerably smaller than originally targeted.

21. The sharp year-on-year rise in industrial production in the first half of 1986 was largely due to the steep upward trend of output during the four months to February 1986.

22. Information relates to the draft document presented to the National Assembly. The final draft has not been approved yet.

23. The official discount rate will be set as a 1 per cent mark-up on the annual rate of increase of industrial producer prices over the previous six months.

24. The official real effective exchange rate definition is based on relative producer price indices. The main countries included in the basket are: the United States, Germany, France, Italy, Belgium, Austria and Switzerland.
25. Tentative estimates based on capital stock figures for 1984 and on gross investment and depreciation data for 1979-1985 point to an annual rate of growth of the capital stock of around 4 per cent during the first half of the 1980s.
26. In particular, see OECD, *Economic Survey of Yugoslavia*, December 1984, pp. 44-50.
27. See OECD *Economic Survey of Yugoslavia*, December 1984, page 49 and May 1983, page 44.
28. When the rate of depreciation of the dinar exceeds the rate of inflation, interest receipts from foreign-exchange deposits of households increase in real terms when converted into dinar.
29. See OECD *Economic Survey of Yugoslavia*, December 1984, pp. 41-43 and May 1983, pp. 8-10 and pp. 43-47.
30. In 1981 recorded losses amounted to 2 per cent of GSP. However, allowing for accounting changes which have taken place since then, the comparable 1986 level is 3 per cent.
31. The number of loss-making enterprises increased from 6 563 with 1 265 000 workers in the first quarter of 1985 to 7 093 with 1 463 000 workers in the first quarter of 1986. However, as in most of these enterprises average pay was already at the stipulated minimum of 70 per cent of the average in the respective Republic, only few were affected by the limit on the growth of average pay in 1986 (648 enterprises and some 157 000 workers in the first quarter of 1986 and 652 enterprises with 132 000 workers a year earlier). Loss-making enterprises are concentrated in electricity generation, coal, fertilisers, food processing and construction.
32. Measures have also been introduced to curb the growth of pay in enterprises having considerably above-average wage levels.
33. Until 1985 foreign-exchange liabilities were estimated at constant dinars and only when repayments were effected was the exchange rate of the day applied.
34. In order to encourage enterprises to comply with this new rule, it was stipulated that foreign-exchange earnings of enterprises could be counted as enterprise revenue only after being converted into dinars. Until 1985 enterprises could add to their revenue export earnings held in foreign exchange.
35. During the first six months of 1986 there was a small real effective appreciation of the dinar, instead of a constant level as has been the official long-term policy objective since 1983.
36. In June 1986 the Authorities decided to increase net transfers to export industries, thereby largely offsetting the adverse effects of the change in the system.
37. It has been reported that energy prices differ from one region to another and from one Republic to another. Sometimes prices in certain parts of the country are fixed artificially low to encourage the establishment of an energy consuming plant.
38. Taxes on personal income are paid on income which is above three times the average level of the relevant Republic or Province. The standard rate is small – 3 per cent – and gradually rises to a maximum marginal tax rate of 80 per cent, but this applies to extremely few people.
39. A brief description of the main post-war trends is contained in Annex III.
40. In the 1980s, foreign-exchange valuation effects have also become important.
41. "Pooled resources" are a means of raising financial capital by enterprises. As such they appear on the asset side of the balance sheet of enterprises when they denote own funds and as a liability of banks where they are deposited. They can also represent a form of lending between enterprises in which case they show up also as a liability of enterprises. See also Annex III.
42. Individuals have the right to open a foreign-exchange account only by depositing foreign exchange. In addition to the officially-recorded net inflows resulting from emigrant remittances and from workers temporarily abroad, it appears that part of foreign-exchange earnings from tourism filter through unofficial channels.

43. The Federal Board is made up of the Governors of the National Banks of each Republic and Autonomous Province. The Governor of the federal institution is appointed by, and responsible to, the Federal Assembly. All members on the Board have equal voting power. Unanimity is required for important decisions, in the absence of which the matter is brought before the Federal Executive Council. A recent proposal presented to Parliament envisages majority voting for all decisions.

44. The operations of the National Banks of the Republics and Autonomous Provinces as banks to their regional governments not generating base money are included in the balance sheet of Basic and Associated Banks. These operations amounted to 0.8 per cent of the portfolio of such banks.

45. Alternative estimates put these losses at a cumulated U.S. $10.7 billion at the end of 1985, i.e. an amount also close to some 30 per cent of GSP. See Gaspari, Mitja, article on exchange rate differences (in Slovene), *Bancni Vestnik*, no. 6, June 1986, p. 187.

46. The balance sheet as presented in Table 19 also includes the assets of the Post Office Savings Bank. The characteristics of the operations of this intermediary are not very dissimilar to those of equivalent institutions in other countries (see Annex IV). In 1985 its assets were equal to only 1.0 per cent of those of Basic and Associated Banks.

47. The top decision-making body of a basic bank is its assembly which is composed of delegates of the bank's founders. Since the introduction of the 1985 Banking Law in 1986, their voting power depends on the amount of resources invested in the bank. Until then, it was equal irrespective of the funds invested. The assembly appoints the manager, executive board and credit committees of the bank which are organised as a "work community", mainly responsible for the running of the institution and for the payment of personal incomes within the limits decided by the assembly.

48. Since 1986 a cost of 1½ per cent per quarter has been charged.

49. See Gaspari, Mitja, *op.cit.*

50. In 1982 and as part of the refinancing agreement of the external debt with commercial banks, the NBY took over part of banks' losses arising from their foreign-exchange operations (both from valuation effects and from differential interest rates). These are now shown in the NBY's balance sheet.

51. About 40 per cent of their funds are drawn by issuing securities, of which they are by far the largest supplier in the economy. The rest is raised in the form of time deposits, compulsory contributions through the fiscal system and voluntary pooling of resources. More details about these institutions are given in Annex IV.

52. There exists no historical series relating to these rates. See *Ekonomska politika*, No.1771, 10th March 1986.

53. In Yugoslavia there are three different types of institutions intervening in financial markets: the various levels of government (federal, regional, local), the National Bank of Yugoslavia and the Social Accounting Service (SDK). The SDK is charged with the control of the legal conformity of operations of all socialist entities (including both enterprises and financial institutions). It also performs payment services as a bank agent, mostly through giro accounts, and monitors inter-enterprise credit (see Annex IV).

54. They are granted only once a bank has depleted its liquidity reserve fund (see below).

55. Those credits associated with the discounting of international bank liabilities do not imply a net increase in the monetary base as they are associated with an equivalent rise in the net foreign liabilities of the NBY. They are denominated in foreign exchange.

56. Enterprise commercial bills eligible for rediscounting must be guaranteed by a bank and be worth at least Din. 500 000. The volumes discounted are regulated by fixing the maximum and minimum number of days to maturity, by setting a ceiling as a percentage of the portfolio of such bills or by specifying some other restrictions. Credits granted on the basis of commercial bills as collateral are apparently controlled only by a ceiling analogous to that for rediscounting.

57. Until the mid-1970s, all rates were regulated.

58. In the computation of this ratio, loans to underdeveloped regions are not counted, as banks simply channel funds from other financial organisations without bearing the risk.

59. The first is a minimum "most-liquid-assets" to short-term liabilities ratio equal to 2 per cent (monthly average). The second is a minimum 35 per cent short-term assets to short-term liabilities ratio. As from 1981, at least 85 per cent of short-term liabilities must be invested in short-term credits.

60. This "secondary" liquidity ratio ("reserve fund") is held at the NBY to meet shortages of liquidity in excess of the funds freely deposited in the Giro account with that institution. It is equal to 1 per cent of outstanding credits to clients. There is an obligation to replenish this fund with the first inflow into the Giro account.

61. This compulsory ratio has not varied much during the period under consideration. There is, in addition, a 2 per cent ratio against long-term time deposits, but the amounts involved are negligible. The reserve requirement is decided by the NBY within certain limits established by law (25 per cent since 1976 and 30 to 35 per cent before then). The Federal Executive Council can decide lower limits. The NBY has also the possibility of introducing minimum reserve ratios for securities issued and guarantees accepted.

62. Now equal to 0.18 per cent per day.

63. Between 1983 and June 1986 the main credit ceiling was on Net Domestic Assets of the banking system (NDA). This was defined as domestic credit plus other net assets against residents. This separate ceiling was abandoned recently because of statistical shortcomings and information lags. The distinction between NDA and domestic credit does not affect the analysis in the text.

64. The ceiling excludes, *inter alia*, credits granted by banks to underdeveloped regions on the basis of funds received from other financial organisations. In 1986, all agricultural and export credits were exempt.

65. In a number of OECD countries the links between banks and business are also relatively strong. Yet, in this case, and apart from lock-in effects, banks can provide an *ex ante* check on the investment and overall policies of enterprises. This is the opposite situation to that which characterises Yugoslavia.

66. Over the period 1980-1985 net interest income as a percentage of total assets was about 1 per cent. This compares with figures ranging from 2.3 per cent (Italy) to 4.1 per cent (Spain) for commercial banks in most other OECD countries for the period 1978-1982 (except Switzerland, where the ratio was also about 1 per cent, but only as a result of a much broader spectrum of revenue sources). OECD, *Costs and Margins in Banking, Statistical Supplement*, 1985.

67. See also Schrenk, Martin, C. Arladan and N.A. El Tatawy, *Yugoslavia*, World Bank, the John Hopkins University Press, 1979.

68. Four factors contribute to the unresponsiveness of interest rates: *a)* until recently, the NBY's provision of liquidity at a largely constant price; *b)* the oligopolistic collusive setting of interest rates; *c)* the absence of competition to banks within the domestic financial system (e.g. from the Government or other financial intermediaries) and *d)* the lack of foreign competition owing to the insulation of the domestic from the international financial market.

69. *Gospodarski Vestnik*, 22nd March 1985, p. 18.

70. The targets are included in the Annual Economic Resolution of the Federal Assembly. The NBY, however, not only implements them but also has an important role in their formulation.

71. This mechanism, which evens out the distribution of real repayments, has the additional advantage of transparency: distinguishing short-run cashflow problems from underlying economic non-viability.

72. *Economska Politika, op.cit.*

73. The reluctance to define targets gross of valuation effects is partly justified in the case of credit targets (the only official targets apart from M1) as revaluations of the outstanding stock of *loans* are a burden on enterprises unless matched by similar assets (e.g. trade credits) in foreign exchange. Revaluations of new loans, on the other hand, do represent increased financing possibilities when measured in domestic currency. Yet, exclusive attention to the credit targets ignores the fact that the concomitant revaluation of bank *deposits* (reflected in M2) has unambiguous inflationary implications.

74. In recent years valuation effects have also been the main factor behind the increase in the monetary base defined to include foreign-exchange bank deposits with the NBY. Such revaluations, however, cannot be a source of multiple expansion of credit and money as banks cannot freely convert them into domestic currency. They are associated with an increase in foreign exchange deposits of households of a roughly equivalent amount (in fact, somewhat larger as only about 95 per cent of these deposits are backed by NBY accounts).

75. See Annex VI for a description of the various forms of inter-enterprise credit.

76. In the early 1970s, for example, concern for the excessive build-up of inter-enterprise debts and illiquidity of enterprises was an important factor behind the authorities' decision to relax credit policy.

Annex I

PRICE-CONTROL REGIMES

Various forms of price controls have been in operation in Yugoslavia over the last forty years. Since 1980 following the establishment of "Communities for Prices"[1] a substantial part of the power for price fixing and controls has been transferred from the Federal to the republican, provincial and regional levels. This has contributed to important regional differences in the prices of many goods and services (e.g. electricity). These differences have only partly reflected market influences. More importantly, regional authorities have attempted to redistribute national income in their favour by bidding up prices under their direct or indirect control. In 1985 Federal control was increased, thus reversing the previous trend.

Frequent modifications to the price regimes have been operated, mainly by shifting various goods and services from one control category to another and by imposing temporary selective or generalised price freezes. In particular:

- *i)* July 1982 to July 1983 (originally planned to last until January 1983): partial price freeze;
- *ii)* July 1983 to the end of 1983: selective price liberalisation;
- *iii)* January 1984 to May 1984: successful generalised price freeze (consumer prices rose at an annual rate of 6 per cent between December 1983 and May 1984);
- *iv)* May 1984 to December 1984: gradual liberalisation;
- *v)* January 1985 to May 1985: extended liberalisation (except for controls on a few basic foodstuffs, on transport, communications and energy tariffs as well as on import trade margins). This price regime was the most liberal since the end of the 1970s;
- *vi)* May 1985 to December 1985: partial reversal of the previous liberalisation process. In October the government decides to claw back some prices to their February 1985 level and to increase coverage;
- *vii)* January 1986 to July 1986: liberalisation operated through an increase in the number of goods whose prices are determined freely and a reduction in the number of goods subject to notification period;
- *viii)* July 1986: extension of the notification period from one to four months and increase in its coverage.

The changes in price-control regimes since 1985 are shown in the following table. It should be noted that this table applies to industrial producer prices. The weight of those goods and services whose prices are freely determined is somewhat higher in the consumer-price (cost-of-living) and retail price indices: 46.0 and 44.9 per cent respectively in June 1986 compared with 38.5 per cent for industrial producer prices.

NOTE AND REFERENCE

1. These communities for prices are composed of representatives of producers, chambers of the economy and commerce, regional and local authorities.

Price controls since January 1985

	1985			1986				
	January	May	September	January	April	June	July	November
Administered prices decided by the Federal Executive Council	16.9	16.9	16.9	14.7	14.7	14.7	7.4	7.4
Prices requiring the approval of the Federal Bureau of Prices (FBP)	2.5	5.2	12.4	4.1	7.1	5.8	31.1	
Advance notice of price increases to buyers (30 days) (Notification also sent to FBP for information)	48.0	48.0	47.0 (30.0)					
Obligatory 30 day advance notice to FBP of price increases				43.6	38.0			
Obligatory 120 day advance notice to FBP of price increases						39.0	42.4	16.2
Prices inceases on the basis of self-management agreement		6.4						
Freely-determined prices, not subject to notification period	35.1	26.2	30.9	28.4	42.5	38.5	37.6	38.5
Cost-linked automatic price increases				0.9	0.7	0.7	6.8	6.8
Total[1]	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1. The distribution of goods in the various categories is based on their weights in the industrial-producer price index.

Annex II

FOREIGN-EXCHANGE AND TRADE ARRANGEMENTS

In December 1985 two important laws were passed modifying the previous regime for the regulation of external transactions: the Law on Imports and Exports of Goods and Services and the Law on Foreign-Exchange Operations[1]. They became operative on 1st January 1986. While proclaiming free trade and full convertibility as ultimate objectives, the laws make extensive and detailed provisions for so-called "transitional" arrangements. These arrangements are envisaged to remain in operation until the external constraint is lifted. The two laws are intimately linked as, under the new system, the right to import normally entails access to the corresponding amount of foreign exchange.

In order to restrict imports in line with the balance of payments' projections and/or with actual export performance, all imports are classified into four commodity regimes according to the mechanisms envisaged for their control: free, conditionally free, on a quota basis and on a permit basis. "Free" imports are not subject to restrictions. They include commodities such as medicines, books and medical equipment. They account for some 7 per cent of imports from the convertible area. A similar treatment is accorded to imports of enterprises who have entered long-term co-production arrangements with foreign partners and to those of foreign partners in joint ventures. The right to import on a quota and permit basis is decided by the Federal Executive Council and by the Chamber of the Economy. These two categories, which together account for some 40 per cent of imports from the convertible area, include *inter alia* military equipment, some raw materials and, notably, crude oil. The "conditionally-free" import regime is the single most important category. It covers about 50 per cent of imports from the convertible area. It includes most raw materials and intermediate inputs. Contrary to arrangements in the other three regimes, import (and hence payment) rights in the conditionally-free regime are related to the import-export performance of *individual* producers and are decided by banks.

Every quarter banks calculate for each producer its "socially verified import needs" (SVINs) and hence its right to foreign exchange on the basis of the value of imports and non-merchandise payments in the preceding year plus a correction related to the increase (decrease) of exports relative to that year. *Net exporters*, i.e. enterprises whose exports exceed imports, benefit from a more generous treatment as their SVINs are increased in line with their improved export performance. *Net importers*, i.e. enterprises whose imports exceed exports, can have their import rights increased by up to 50 per cent of the rise in their exports. The rights of new enterprises or of those who have not exported in the past are decided by the Chamber of the Economy[2]. Import rights for enterprises are reduced in line with any decline in their exports. For net exporters forward-looking adjustments on the basis of contracts for future delivery are also possible.

According to the new legislation, all foreign-exchange earnings must be sold to banks[3]. Enterprises are thus no longer allowed to hold foreign-exchange accounts either at home or abroad[4]. In turn banks are obliged to sell any working balances in excess of a stipulated narrow upper limit in the organised foreign-exchange market (i.e. to other banks). They are allowed to purchase foreign exchange whenever these balances fall below a stipulated lower limit in order to meet legitimate import needs of customers.

If at the official exchange rate there is an excess demand for foreign exchange which cannot be overcome through intervention by the NBY, Article 110 of the Foreign Exchange Law comes into operation. It envisages rationing according to the following order of priorities:

- Obligations arising from the servicing of external debts and other foreign contracts. Remittances of profits by foreign firms in joint-production ventures with Yugoslav firms also fall under this category;
- The imports of raw and intermediate materials and non-merchandise payments for production needs of net exporters[5];
- Similar import needs of those enterprises whose exports have been restricted and could be raised above imports in the course of the year[6];
- Priority needs of federal agencies and organisations;
- Imports of energy (raw materials);
- Imports of consumer goods.

The Federal Executive Council is empowered to lay down other purposes and different rankings according to the circumstances. Since its inception, the system has generally operated under Article 110 and according to a rather flexible interpretation of the order of priorities.

NOTES AND REFERENCES

1. A Law on Foreign Credit Relations was also passed regulating the conditions under which external borrowing is possible. Basically, all Yugoslav "legal persons" have the right to borrow abroad provided that credits are used for production activities yielding sufficient (net) foreign exchange so as at least to cover debt repayments. Business organisations can only borrow abroad subject to authorisation from the bank which must guarantee the loan.
2. The Chamber of the Economy also regulates imports of enterprises in tourism and catering.
3. Only a number of banks are authorised to carry out foreign-exchange transactions. There are eleven "fully-authorised" banks (including the nine Associated Banks) and an additional seventy-eight "partially authorised" banks which can engage in a subset of foreign-exchange transactions and in Yugoslav territory only.
4. There are a few exceptions, however, such as investment operations abroad and re-export operations. Private citizens, while allowed to hold foreign-currency accounts with domestic banks, are not entitled to hold such accounts abroad. Nor can they purchase securities or borrow abroad.
5. This category also includes enterprises in tourism and catering when preparing for the tourist season.
6. Typical exports subject to such restrictions include those of certain raw materials in short supply in the domestic market and military equipment. These commodities can be exported only on a quota or permit basis.

Annex III

AN OVERVIEW OF FINANCIAL ARRANGEMENTS IN THE POST-WAR PERIOD

The post-war period has seen a number of profound changes in the Yugoslav political and economic system which have been mirrored in the mechanisms for savings mobilisation and allocation. At least four broad stages can be identified: 1945-1952 – the emergence and operation of a centrally-planned economy; 1953-1964 – the first decentralisation; 1965-1970 – the second decentralisation; 1971-1985 – self-management at all levels, associated with an important transfer of power from the Federal to the Republican, Provincial and local governments.

The 1945-1952 period

The pre-war market economy was gradually replaced by a centrally-planned economy. Practically all important management functions and hence savings and investment decisions were performed by the planning bodies. Almost all savings were gathered through federal taxes and distributed through state grants. Existing financial institutions were either liquidated or nationalised and merged. The centralising process was essentially complete by 1950. Yugoslavia functioned as a fully centrally-planned economy for about two years. During that period, a monobank (the National Bank of Yugoslavia) performed practically all central and commercial banking operations.

The 1953-1964 period

The 1953-1964 period saw the introduction of the first elements of self-management. Central planning was replaced by "planning of basic proportions" but was retained in a number of areas, notably in mobilisation and, to a lesser extent, allocation of enterprise-sector savings. Enterprise savings were largely determined by three requirements: the obligation to pay a specified rate of return on newly-established "investment funds" as the user cost of capital; the compulsory legal minimum rate of depreciation[1]; and the need to service long-term debts. Any remaining surplus could be used for real investments or deposited with banks but the room left to enterprises for making independent decisions was very limited. During the period 1958-1964, the domestic savings rate averaged some 40 per cent. The households' share was less than 10 per cent and the sector had a negligible financial surplus.

The introduction of elements of self-management was accompanied by important changes in the structure of financial institutions. The NBY gradually transferred part of its functions to newly-established banks: short-term and long-term crediting to commercial and investment banks respectively; foreign financial transactions to foreign-trade banks; household savings and crediting to savings and commercial (regional) banks. The Social Accounting Service (SDK) became an independent body. "Investment Loan Funds" were created as the main institution for the financing of investment, though their loans were technically channelled through investment banks. Their funds were raised through taxes on social sector savings. Despite this decentralisation process, however, the independent decision-making power of all financial institutions remained limited, reflecting the rather centralised mechanisms of mobilisation and allocation of savings.

The 1965-1970 period

The major 1965 reforms aimed at enlarging the scope for self-management and market mechanisms. The constraints on the distribution of enterprises' net income between personal-income payments and gross savings were essentially eliminated. In particular, the payment of the minimum rate of return on investment funds was largely lifted. Given their relatively "soft" budget constraints, enterprises distributed as personal-income payments a much larger fraction of net income than originally envisaged by the Authorities. During this period, households increased their share in domestic savings to over 20 per cent. Their net lending also rose significantly to an average 10 per cent of enterprise investment, compared with only some 2½ per cent in the period 1958-1964. The increase in household savings, however, was not sufficient to prevent a decline in the total gross domestic rate by about 5 percentage points of GSP to around 36 per cent.

In the financial sphere, banks were transformed into three types of so-called "business" banks depending on their specialisation: investment, mixed and commercial. Foreign financial transactions were carried out by a number of such banks explicitly authorised for this purpose. Investment Loan Funds were abolished and their resources transferred to investment banks, which began to collect voluntary savings.

During this period, and contrary to expectations, banks exercised significant influence on investment decisions of enterprises, partly because of the lower-than-expected self-financing ratio. Considerable power was also enjoyed by government bodies, especially at local and regional level. Although the assets and liabilities of the so-called "state capital" had been transferred to the banks' balance sheet, the State continued to specify the purposes for which these institutions could use the debt-service payments on earlier state credits. By 1970, still about half of available financial resources were under the indirect control of government bodies.

The 1971-1985 period

Between 1971 and 1976, a major reform programme was gradually introduced. This programme, which determined the basic institutional set-up for the rest of the period, was aimed at correcting the deficiencies of the mechanisms developed in the second phase of decentralisation. The answer was thought to lie in the extension of self-management to all levels of decision-making. Co-ordination within this new, highly-decentralised system was to be achieved through self-management planning. The new form of planning would involve extensive consultations of all parties concerned (mainly enterprises and governmental bodies at local, regional and federal level); be limited to a few key issues (such as the distribution of enterprise income between personal income payments and savings, and major investment projects in certain regions and priority sectors); and be codified into "social compacts" and "self-management agreements". Furthermore, in 1971 the production structure of the economy was fragmented by splitting existing enterprises into Basic Organisations of Associated Labour (BOALs), each capable of producing a potentially-marketable output, endowed with its own independent set of accounts and integrated into broader productive organisations through self-management agreements.

A new type of "financial instrument" for direct investment was introduced: the "pooling of labour and resources". This instrument was expected to become the most important form of mobilisation and allocation of savings in the economy at the expense of the banking system. In practice, however, its role has remained extremely limited (see Part III). Banks had never been intended as organisations truly independent of enterprises. Accordingly, from 1974 steps were taken to reduce the autonomy that banks had gained during the second decentralisation phase. The process culminated in 1977 with the adoption of the Law on the Foundations of the Credit and Banking Systems. This Law regulated the system until the end of 1985, when the new Banking Law was passed partly in an attempt to correct the excesses of the previous legislation. In 1977 existing banks were replaced by Basic and Associated Banks, whose management arrangements were designed to ensure control by enterprises – hence their designation as "financial associations of associated labour" (see Part III). At the same time, so-called "Internal Banks" were created, with a view to rationalise the use of internal and external resources of groups of enterprises bound together by self-management agreements. In addition, the self-management principle was extended to "other funds" which until 1977 had been managed by local or federal government bodies. Such is the case, for instance, of joint reserve funds, whose main function has been that of financing losses and rehabilitation programmes of enterprises.

NOTE AND REFERENCE

1. In the early years of operation of the new system depreciation allowances were collected by special funds. Subsequently, enterprises were authorised to retain them.

Annex IV

OTHER FINANCIAL INSTITUTIONS

The Post-Office Savings Bank and other savings institutions

The Post-Office Savings Bank (POSB) corresponds broadly to savings institutions in other countries. It is founded by the organisations of associated labour (enterprises) performing Republican and local post, telephone and telegraph services. Like other banks, it is managed by a board comprising representatives of its founders. It is authorised to keep household savings and cheque deposits and to make foreign payments on behalf of its founders. It is not authorised to grant credits directly (except to its founders) and is obliged to deposit the rest of its resources with the basic banks in the region where they have been collected. The assets of the POSB amount to less than 1 per cent of those of Basic and Associated Banks.

Legislation provides for the existence of Savings Banks founded by enterprises and other social/legal entities. Contrary to the POSB, Savings Banks are authorised to grant credit to households. The total volume of assets of such institutions is negligible in comparison to that of the POSB. Their number remains small.

Investment Loan Funds

Investment Loan Funds are established by law and financed by obligatory contributions of enterprises and other institutions. Their main function is to provide finance for priority investments in less-developed regions according to social plans. The most important is the Federal Fund for Financing Economic Development of Less-Developed Republics and Autonomous Provinces. In addition to this Federal Fund, there exist others at Republican and local level.

The funds of Investment Loan Funds are channelled through Basic Banks. In the 1980s, enterprises have been allowed to use 50 per cent of their obligatory contributions to the Federal Fund for self-management "pooling of resources" with enterprises in less developed regions. Between 1981 and 1985, 707 self-management agreements on joint projects were signed for a total (inflation-unadjusted) value of Din. 406.3 billion averaging about 2 per cent of GSP per year. Before the 1965 Reform (see Annex III), Investment Loan Funds were the main external source of investment financing. Between 1981 and 1985, the Federal Fund was planned to provide credits equivalent to some 10 per cent of the increase in total bank investments.

The Yugoslav Bank for International Economic Co-Operation

The Yugoslav Bank for International Economic Co-Operation is a specialised quasi-government financial institution founded by enterprises, manufacturers and exporters of capital goods, for the financing and insurance against non-commercial risks of export operations. The Bank draws resources from founders, Basic and Associated Banks, credits from the NBY and the Solidarity Fund with non-aligned and other developing countries. Other possible, though not yet used, sources of funds are foreign borrowing and security issues from special government funds. At the end of 1985, the Bank's assets were less than 1 per cent of the total assets of financial institutions.

Self-managed funds of associated labour

Self-managed funds of associated labour are joint funds of enterprises in the socialised sector designed to finance priority needs in certain branches or regions. A common example could be the financing of the sale of equipment on credit at home and abroad. Their assets, however, remain negligible.

Life insurance institutions

Life insurance institutions collect savings in the form of premium reserves. They are obliged to deposit their funds with banks. Their assets are negligible.

Bank associations

All banking organisations are legally required to be members of the Association of Yugoslav Banks, which is in turn represented in the Chamber of the Economy. The main functions of the Association are: promotion of inter-bank co-operation and banking activities; provision of legal and professional staff assistance; and co-operation with the Federal Authorities in the formulation of laws on monetary, credit and banking issues. In addition to the Yugoslav Association, there exist so far three regional associations: the Association of Commercial Banks (Belgrade), including the commercial banks of Serbia, Montenegro, Vojvodina and Kosovo; the Association of Banks of Croatia (Zagreb); and the Association of Banks and Savings Banks of Slovenia (Ljubljana).

The Social Accounting Service

The Social Accounting Service (SDK) is an autonomous organisation established in accordance with the Constitution by Federal and Republican laws and responsible to the Federal, Republican and Provincial Assemblies. It operates nationally through a network of branches. The SDK performs three types of operations. First, it ensures the legal conformity of financial operations of all socio-legal entities (including enterprises and financial organisations). Secondly, it carries out *all* payments of enterprises and socio-legal entities (thereby ensuring their legality) with the exception of socio-political communities whose payments are taken over by the central banking system. The SDK performs payment services as a bank agent, its balances being a liability to the bank where the deposits are originally held. Thirdly, the SDK collects and publishes statistical information based on the quarterly reports and annual accounts which all socio-legal entities are obliged to provide in order to allow checks on their legal conformity.

Annex V

CENTRAL BANK LOSSES AND PURCHASING-POWER TRANSFERS

The net worth of the central bank (W) is by definition equal to the sum of the net foreign position (E.F) and the net position *vis-à-vis* residents, both in foreign exchange (E.R) and dinars (D), all these items being expressed in domestic currency i.e. multiplied by the exchange rate (E).

$$W = D + E.R + E.F \tag{1}$$

Abstracting for the moment from interest income, differentiating totally and letting the superscript ^ denote percentage rates of change, the rate of change of net worth ($\dot{W}$) can be written as:

$$\dot{W} = \hat{E}.E.R + \hat{E}.E.F \tag{2}$$

using also the fact that

$$E.\dot{R} + E.\dot{F} + \dot{D} = 0 \tag{3}$$

i.e. that at any given point in time, financial transactions must balance (identically). Any central bank losses as determined by (2) are necessarily reflected in gains for the other sectors when measured in the same unit of account. Therefore, expression (2) could be considered equivalent to a public sector deficit arising from transfer payments. This transfer is proportional to the percentage rate of depreciation of the domestic currency, $\hat{E}$.

Those losses arising from the net-debtor position in foreign exchange *vis-à-vis* residents represent a direct transfer to that sector. Ultimately, however, because it is residents that will have to pay for external indebtedness, even that part of the losses *vis-à-vis* non-residents represents an (indirect) transfer to residents. The central bank absorbs the burden that would otherwise have fallen on that sector. In this respect, these losses are analogous to a public sector transfer generating a debt burden.

Identity (2) denotes nominal losses. Deflation by an appropriate price index (e.g. the GSP deflator) yields a measure of real losses. But a fully inflation-adjusted measure of the transfer requires taking into account also the erosion of the value of the outstanding central bank liabilities resulting from inflation. Using small letters to denote nominal variables deflated by a price index (P), the inflation-adjusted rate of change of net worth ($\dot{WA}$) is given by:

$$\dot{WA} = -\hat{P}.d + [\hat{E} - \hat{P}]r.E + [\hat{E} - \hat{P}]f.E \tag{4}$$

It is only changes in the (appropriately measured) *real* exchange rate that imply a transfer over and above that required to compensate for the loss of purchasing power associated with inflation. In addition, identity (4) shows that when the central bank's net dinar position *vis-à-vis* residents is positive ($d>0$), inflation-adjusted losses are an increasing function of the inflation rate. Such a positive position in turn arises mainly as the mirror image of the net-debtor position in foreign exchange.

Any losses (gains) arising from the current operations of the central bank – primarily from net interest income – should be treated in an analogous way to those explicitly discussed above.

Annex VI

INTER-ENTERPRISE CREDIT

The SDK classifies inter-enterprise (trade) credit into four categories, according to the financial claim involved: uncashed cheques, promissory notes, claims for which letters of credit or guarantees were received, and claims for which payment date was agreed.

Uncashed cheques are payment instruments which must be provided to the creditor within a period of fifteen days from the date goods are delivered or services rendered. The creditor must in turn submit the cheque to the SDK within fifteen days of the issue date. Uncashed cheques represent genuine float. They account for less than 1 per cent of total inter-enterprise claims.

Promissory notes are the largest category. Together with uncashed cheques they account for some 40 per cent of the outstanding stock of trade credit. They have a ninety-day maturity, are drawn on the debtor's account at the SDK and must be guaranteed. Until 1986, they could be underwritten by enterprises, their Internal Banks and banks; now, only by banks. On the maturity date, the SDK executes the payment, debiting the debtor's, and crediting the creditor's, account.

Claims for which letters of credit or guarantees were received now amount for some 30 per cent of the stock of trade credit. When a *letter of credit* is issued, the SDK creates a separate account to which the debtor's giro account resources are transferred. The creditor then draws on its credit upon presentation of the documentation specified in the letter of credit. This instrument of payment is the safest from the creditor's point of view. *Guarantees* represent an obligation on the part of the guarantor to make the payment on the debtor's behalf in case he fails to do so within the specified period.

Claims for which payment date was agreed is the category which corresponds to goods delivered and services rendered for which no payment instrument has been transferred from the debtor to the creditor nor any guarantee received. This form of unbacked credit has a legal status of up to fifteen days after the debtor/creditor relationship has been established. They account for about one-fifth of outstanding trade credit.

Between 1983 and 1985 the combined share of claims for which letters of credit or guarantees were received and of those for which payment date was agreed rose from some 25 per cent to close to 60 per cent, at the expense of promissory notes. The recent limitation to banks of the right to guarantee such notes should lead to a strengthening of this trend. As the characteristics of the different kinds of credit would appear to make them very close substitutes, it is unlikely that this measure will by itself lead to a significant slowdown in the growth of inter-enterprise credit.

STATISTICAL ANNEX

Table A. **Social product (Yugoslav definitions and concepts)**

Millions of dinars

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
						Current prices					
Consumers' expenditure	275 283	326 191	397 837	487 200	622 447	818 829	1 143 300	1 510 662	2 087 788	3 174 168	5 586 600
Collective consumption	49 620	60 265	72 556	86 439	110 900	143 060	198 200	260 140	345 119	524 300	941 300
Gross fixed capital formation	163 287	207 283	267 956	357 314	447 581	545 665	684 961	854 816	1 029 539	1 458 438	2 566 800
Change in stocks	54 273	27 492	58 222	53 931	90 940	185 546	297 705	372 602	630 959	1 232 926	2 365 100
Foreign balance	–46 427	–30 427	–62 458	–75 993	–128 459	–153 290	–123 395	–144 034	–98 964	–159 869	–136 300
Exports of goods and services	102 459	117 793	127 857	146 931	200 735	369 232	446 465	599 956	851 299	1 703 769	2 637 500
Imports of goods and services	148 886	148 308	190 315	222 924	329 194	522 522	569 360	743 990	950 262	1 863 638	2 773 800
Statistical discrepancy	6 959	1 844	191	–7 076	22 008	13 279	7 479	70 648	69 848	95 880	–57 900
Social product	502 995	592 560	734 304	901 815	1 165 417	1 553 089	2 208 250	2 924 794	4 064 289	6 325 843	11 265 600
						1972 prices					
Consumers' expenditure	156 174	163 097	174 595	186 737	197 101	198 481	196 496	196 345	192 919	190 990	190 933
Collective consumption	25 980	28 448	30 553	32 540	34 015	33 670	32 050	31 820	30 194	30 125	30 035
Gross fixed capital formation	92 181	99 689	109 114	120 589	128 293	120 717	108 887	102 892	92 900	83 979	80 620
Change in stocks	31 281	13 977	25 796	20 799	29 054	45 499	52 092	49 450	59 654	76 346	80 170
Foreign balance	–20 858	–12 684	–24 443	–29 902	–37 851	–24 670	–13 999	–13 213	–4 003	3 471	7 112
Exports of goods and services	59 638	65 198	63 176	61 647	70 837	76 148	85 279	69 505	66 439	70 739	76 398
Imports of goods and services	80 496	77 882	87 619	91 549	108 688	100 818	99 278	82 718	70 442	67 268	69 286
Statistical discrepancy	5 135	8 664	9 706	17 036	21 705	6 987	10 871	21 747	12 601	6 925	4 804
Social product	289 893	301 191	325 321	347 799	372 317	380 684	386 397	389 041	384 265	391 836	393 674

1. Preliminary data.

Source: Direct communication to the OECD.

Table B. **National product and expenditure (standardized definitions and concepts)**

Millions of dinars, current prices

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
Consumers' expenditure on goods and services	244 100	294 900	351 500	428 950	528 400	672 125	881 140	1 226 437	1 623 803	2 242 940	3 389 150	5 950 700
Government current expenditure on goods and services	74 300	97 900	118 700	147 500	177 200	227 500	290 967	380 850	499 580	642 950	931 560	1 650 900
Gross fixed capital formation	117 387	163 287	207 283	267 956	357 314	447 581	545 665	684 961	854 816	1 029 530	1 458 400	2 566 800
Change in stocks	64 262	54 273	27 492	58 222	53 931	90 940	185 546	297 705	372 602	630 959	1 232 526	2 365 100
Exports of goods and services	93 126	102 459	117 793	127 857	146 931	200 735	369 232	446 465	599 956	851 298	1 703 769	2 637 497
less: Imports of goods and services	141 763	148 886	148 308	190 315	222 924	329 194	522 522	569 860	743 990	950 262	1 863 638	2 773 801
Statistical discrepancy	21 288	13 267	8 340	–4 870	–28 133	–15 751	–26 330	–56 313	–48 059	–164 550	–198 305	–445 896
Gross domestic product at market prices	472 700	577 200	682 800	835 300	1 012 719	1 293 936	1 723 698	2 410 245	3 158 708	4 282 865	6 653 462	11 951 300
Income from the rest of the world	33 728	35 122	40 103	43 401	61 960	75 259	126 863	161 807	212 219	228 621	462 258	654 221
Income payments to the rest of the world	5 202	6 239	6 783	6 987	8 889	16 359	36 118	58 886	87 947	112 281	239 492	363 229
Gross national product at market prices	501 226	606 083	716 120	871 714	1 065 790	1 352 836	1 814 443	2 513 166	3 282 980	4 399 205	6 876 228	12 242 292
Indirect taxes	58 070	62 000	71 200	105 300	123 172	163 085	195 332	269 014	339 970	508 213	771 134	1 192 950
Subsidies	12 280	15 000	10 000	26 100	26 400	34 233	42 894	50 711	79 430	108 893	171 742	316 469
Gross national product at factor cost	455 436	559 083	654 920	792 514	969 018	1 223 984	1 662 005	2 294 863	3 022 440	3 999 885	6 276 836	11 365 811
Depreciation and funds for other purposes	50 840	61 000	70 000	83 600	102 717	128 507	174 746	236 125	374 535	529 490	779 347	1 325 400
Net national product at factor cost	404 596	498 083	584 920	708 914	866 301	1 095 477	1 487 259	2 058 738	2 647 900	3 470 395	5 497 492	10 040 411

1. Preliminary data.
Source: Direct communication to the OECD.

Table C. **Gross product at factor cost by industry**

Millions of dinars, current prices

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
Agriculture, forestry and fishing	83 552	97 463	111 936	112 636	146 842	201 025	304 192	435 433	620 108	896 050	1 367 500
Mining and quarrying	13 182	14 780	17 360	19 679	24 315	38 544	56 919	77 204	103 807	199 820	329 900
Manufacturing	160 275	180 359	221 395	271 936	343 933	481 113	699 372	917 860	1 264 434	2 064 800	4 090 100
Electricity, gas and water	14 268	17 081	20 562	24 548	31 533	45 030	59 839	79 156	91 450	144 850	260 900
Construction	53 870	63 399	78 786	100 024	128 446	167 770	226 019	271 590	322 193	446 900	810 500
Transports and communication	44 111	50 921	58 892	73 723	97 013	127 239	176 500	227 570	309 906	469 100	882 100
Wholesale and retail trade	62 523	77 072	87 894	111 241	145 390	195 237	264 400	358 622	503 377	774 200	1 290 900
Banking, insurance, real estate and business and financial services	17 061	20 627	27 334	36 557	43 932	59 881	80 242	107 906	134 395	220 150	399 500
Community, social and personal services	80 752	99 313	131 280	165 603	203 680	255 421	324 459	422 827	533 875	838 200	1 520 900
Others services	606	585	661	–	–	–	–	–	–	–	122 519
Gross domestic product at factor cost	530 200	621 600	756 100	915 947	1 165 084	1 571 260	2 191 942	2 898 168	3 883 545	6 054 070	11 074 819
Net payment of income payable to factors of production by the rest of the world	28 883	33 320	36 414	53 071	58 900	90 745	102 921	124 272	116 340	222 766	290 992
Gross national product at factor cost	559 083	654 920	792 514	969 018	1 223 984	1 662 005	2 294 863	3 022 440	3 999 885	6 276 836	11 365 811
Adjustment	–	–	–	–	–	–	–	–	–	–	—

1. Preliminary data.
Source: Direct communication to the OECD.

Table D. Gross fixed investment

Millions of dinars, current prices

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
Total	117 400	163 200	207 300	268 000	357 300	447 600	545 600	685 000	854 800	1 029 500	1 458 400	2 566 800
Private sector	28 200	30 900	36 300	45 700	53 600	71 000	88 500	121 600	166 100	209 800	292 400	464 600
Social sector	89 200	132 300	171 000	222 300	303 700	376 600	457 100	563 400	688 700	819 700	1 166 000	2 102 200
By activity:												
Productive	79 600	114 200	146 600	192 500	260 800	319 600	386 300	485 700	603 000	740 100	1 049 500	1 886 600
Non-productive	37 800	49 000	60 700	75 500	96 500	128 000	159 300	199 300	251 800	289 400	408 900	680 200
By industry:												
Agriculture and forestry	11 078	12 100	14 700	20 800	26 000	31 500	36 700	51 200	81 800	106 200	145 500	228 900
Industry	38 588	64 000	80 700	98 000	136 000	157 800	199 600	254 600	305 700	376 300	540 500	993 500
Building	3 328	4 000	4 800	9 300	10 900	13 800	14 400	19 300	19 900	22 700	29 400	71 300
Transportation	16 102	21 000	27 700	37 000	52 000	65 900	72 900	81 200	94 100	124 600	160 800	310 300
Trade, catering, tourism	7 218	9 400	10 400	15 900	20 000	28 890	32 200	40 500	49 600	49 600	72 200	126 200
Housing, communal activities	31 145	39 000	48 700	59 800	77 000	103 600	134 200	172 500	231 200	268 000	368 500	575 600
Other social sector	9 941	13 700	20 300	27 200	35 400	46 110	55 600	65 700	72 500	82 100	141 500	261 000
By sector of asset:												
Machinery and equipment	47 000	66 730	86 100	110 900	139 600	167 900	191 600	232 800	296 000	378 600	584 500	1 126 200
Domestic	27 100	35 530	50 200	64 900	85 600	109 000	125 500	163 700	206 000	266 000	407 600	749 200
Imported	19 900	31 200	35 900	46 000	54 000	58 900	66 100	69 100	90 000	112 600	176 900	377 000
Building	64 600	88 960	110 700	141 300	194 800	249 800	309 400	386 700	479 800	538 600	744 300	1 256 000
Other	5 800	7 510	10 500	15 800	22 900	29 900	44 600	65 500	79 000	112 300	129 600	184 600

1. Preliminary data.

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

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[1]
National income:											
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	211 463	257 690	316 889	372 218	470 796	595 765	878 339	1 154 857	1 558 785	2 273 554	3 966 200
Tax on income and Social Security payments	83 643	108 780	131 681	171 856	206 920	260 005	349 405	454 694	616 306	958 200	1 826 100
Interest and enterprise taxes	84 307	101 377	131 510	168 429	236 384	306 652	429 382	574 917	887 762	1 440 200	2 770 600
Accumulation of productive enterprises and individual producers	74 923	60 611	81 798	100 420	139 903	238 143	346 763	411 303	536 180	965 346	1 845 900
National income	454 336	528 458	661 878	812 923	1 054 003	1 400 565	2 003 889	2 595 771	3 599 033	5 637 300	10 408 800
plus: Depreciation	48 659	64 102	72 426	88 892	111 414	152 524	204 361	329 023	465 256	688 500	1 161 500
Social product	502 995	592 560	734 304	901 815	1 165 417	1 553 089	2 208 250	2 924 794	4 064 289	6 325 800	11 570 300
Household account:											
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	211 463	257 690	316 889	372 218	470 796	595 765	878 339	1 154 857	1 558 785	2 273 554	3 966 200
Net wages and salaries of employees in non-productive enterprises	48 824	59 277	75 295	93 567	117 863	150 507	191 314	247 609	318 109	459 986	826 800
Receipts from Social Security and other welfare funds	49 890	63 548	79 102	99 600	127 190	158 549	209 138	284 523	377 101	534 599	959 700
Bank interest (net)	4 160	5 620	9 033	12 709	16 741	21 883	29 292	43 458	85 819	164 369	458 700
Other domestic transfer receipts	–3 578	–10 921	–4 896	1 990	–3 178	5 632	3 708	67 564	409 205	487 024	1 429 500
Net transfers from abroad	33 626	38 097	40 834	58 583	71 022	120 475	149 768	198 968	213 785	427 813	600 900
Total income received	344 385	413 311	516 257	638 667	800 434	1 052 811	1 461 559	1 996 979	2 962 804	4 347 345	8 241 800
Consumers' expenditure on goods and services of productive sector	249 083	295 351	362 117	447 710	572 842	753 590	1 045 441	1 377 769	1 889 278	2 888 166	5 114 600
Consumption of self-produced commodities	26 200	30 840	35 720	39 490	49 605	65 239	97 859	132 893	198 510	286 002	472 000
Consumer payments to non-productive sector	24 101	32 204	40 729	50 431	64 447	82 152	105 767	140 435	190 484	283 529	479 300
Savings	45 001	54 916	77 691	101 036	113 540	151 830	212 492	345 882	684 532	889 648	2 175 900
Savings ratio (in %)	13.1	13.3	15.0	15.8	14.2	14.4	14.5	17.3	23.1	20.5	26.4

1. Preliminary data.
Source: FSO, *Statisticki Godisnjak.*

Table F. **Agriculture**

	Unit or base	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985[2]
Indices of agricultural output	1951-1955 = 100													
Total		197	209	203	217	227	213	225	225	228	244	240	244	226
Crop production		195	199	193	205	212	186	205	204	206	227	221	225	203
Livestock production		209	235	235	244	263	268	270	273	279	283	284	293	283
Production of selected commodities														
Wheat	Mill. metric tons	4.8	6.3	4.4	6.0	5.6	5.4	4.5	5.1	4.3	5.2	5.5	5.6	4.9
Maize	–	8.3	8.0	9.4	9.1	9.9	7.6	10.1	9.3	9.8	11.1	10.7	11.3	9.9
Sugar beet	–	3.3	4.3	4.2	4.7	5.3	5.2	5.9	5.2	6.2	5.7	5.7	6.8	6.3
Meat	Thous. metric tons	839	1 000	1 031	1 034	1 144	1 237	1 227	1 207	1 221	1 244	1 280	1 369	1 292
Forestry cuttings	Mill. cubic metres	17.4	18.2	18.6	18.5	19.5	19.7	19.9	19.4	20.4	21.1	21.3	22.6	22.2
Number of tractors in use[1]	Thousand	150.0	195.1	225.5	260.9	296.8	342.0	385.1	415.7	595.5	622.4	705.8	808.5	881.7
Consumption of fertilizers	Thous. metric tons	1 919	1 817	1 964	1 970	2 056	2 147	2 203	2 131	2 384	2 510	2 460	2 556	2 551

1. At end of year.
2. Based on census returns for private holdings and not strictly comparable with estimates for earlier years.

Source: Direct communication to the OECD.

Table G. **Industrial production**

	Unit or base	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Indices of industrial production	1970 = 100													
Total	Original base	126	139	147	152	167	181	195	204	212	212	215	227	233
Mining	1953 = 100	117	124	130	133	139	143	148	153	158	162	164	168	177
Manufacturing		126	140	149	154	168	184	200	208	218	217	219	231	237
Basic metals		132	150	157	158	171	188	196	199	214	211	223	240	252
Metal products		123	140	154	157	175	199	219	226	237	238	235	245	256
Chemicals		146	169	178	182	206	234	251	275	301	299	327	301	309
Textiles		125	135	142	145	152	158	172	182	189	187	189	201	208
Food, drinks, tobacco		126	136	137	147	160	173	187	189	195	199	199	207	203
Output of selected commodities														
Electricity	Billion kWh	35.1	39.5	40.0	43.6	48.6	51.3	55.0	59.4	60.4	62.1	67.6	73.0	74.4
Lignite and brown coal	Mill. metric tons	31.9	33.0	35.0	36.3	38.6	39.2	41.7	46.6	51.5	54.2	59.0	64.7	69.1
Petroleum products[1]	–	9.1	10.4	10.9	11.7	13.8	14.2	15.8	15.2	13.4	13.6	13.4	13.9	13.1
Copper ore	–	14.2	14.9	14.6	17.4	17.5	17.1	16.4	19.6	18.3	19.7	23.4	25.3	26.2
Lead ore	Thous. metric tons	119	120	127	122	130	124	130	121	119	113	114	114	115
Zinc ore	–	97	95	103	107	112	104	102	95	89	70	87	86	89
Crude steel	Mill. metric tons	2.7	2.8	2.9	2.8	3.2	3.5	3.5	3.6	4.0	3.9	4.1	4.2	4.4
Cement	–	6.3	6.6	7.1	7.6	8.0	8.7	9.1	9.3	9.8	9.7	9.6	9.3	9.0
Metal and wood-working machines	Thous. metric tons	12.5	15.5	17.1	20.5	28.6	31.9	37.5	46.4	46.3	49.3	50.3	42.4	42.5
Building machines	–	34.4	34.6	34.6	38.4	47.1	67.8	82.6	71.4	71.3	63.3	48.0	80.7	92.7
Rotating machines	–	30.7	34.3	39.8	30.1	34.9	40.6	44.1	43.6	47.3	49.2	42.8	49.1	58.6
Pulp and cellulose	–	527	560	527	495	584	612	608	606	642	659	681	715	707
Cotton fabrics	Mill. sq. meters	361	365	376	385	384	410	418	385	377	372	379	318	344

1. Crude petroleum and refined.
Source: Direct communication to the OECD.

Table H. **Labour force and employment**
Thousands

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Active population (mid-year estimate)[1]	9 078	9 173	9 270	9 367	9 466	9 565	9 666	9 768	9 870	9 974	10 079	–	–
Paid employment	4 306	4 514	4 758	4 925	5 148	5 383	5 615	5 798	5 966	6 105	6 223	8 855	6 516
Registered unemployment	382	449	540	635	700	735	762	785	809	862	910	975	1 040
Other labour force[1]	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]	1 100	1 035	940	870	825	800	790	770	770	760	740	780	710
Yugoslav workers employed in Germany[3]	535	470	410	390	375	360	360	350	336	320	310	320	350
Paid domestic employment by sector:													
Social sector[4]	4 213	4 423	4 667	4 833	5 052	5 280	5 506	5 681	5 846	5 980	6 097	6 224	6 378
Productive activities	3 495	3 671	3 876	4 004	4 182	4 364	4 560	4 709	4 848	4 955	5 052	5 162	5 294
Non-productive activities	718	752	791	829	870	916	946	972	998	1 025	1 045	1 062	1 084
Private sector (excluding agriculture)	93	91	91	92	96	103	109	117	120	125	126	131	138
Paid domestic employment by industry[4]:													
Agriculture	161	168	176	178	179	183	188	191	200	210	218	226	231
Industry	1 638	1 726	1 819	1 874	1 954	2 022	2 102	2 162	2 242	2 313	2 374	2 445	2 529
Construction	420	444	479	500	531	567	602	622	622	612	599	592	583
Transportation and communication	320	329	346	357	372	381	387	399	408	416	422	480	440
Trade	429	452	476	494	507	529	558	582	596	607	621	631	641

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

	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Agricultural producer prices	225	257	291	333	373	417	524	709	1 087	1 471	2 174	3 137	5 019
Industrial producer prices	158	205	250	266	291	315	357	455	658	820	1 082	1 704	3 076
Materials	165	232	285	301	228	354	410	550	793	1 009	1 352	2 186	4 056
Capital good	138	156	191	216	236	250	265	297	372	430	524	744	1 339
Consumer goods	154	188	227	239	265	291	323	391	562	701	921	1 412	2 442
Export unit values, in dollars	144	191	208	217	244	266	305	364	395	424	423	696	741
Import unit values, in dollars	142	207	218	224	255	267	319	381	421	430	430	562	587
Cost of living													
Total	178	216	268	299	345	394	474	617	870	1 149	1 613	2 500	4 287
of which:													
Food	190	220	273	312	369	425	503	661	946	1 309	1 907	2 831	4 860
Services	156	186	231	260	295	338	407	490	623	762	1 000	1 398	2 438
Wage per person employed in social sector	196	250	309	357	424	513	617	744	995	1 267	1 602	2 304	4 107

Source: Direct communication to the OECD.

Table J. **Consolidated balance sheet of all banks[1] excluding financial and other organizations and internal banks**
Billions of dinars, end of period

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Total short-term operations	227.9	274.9	397.8	494.3	870.6	1 356.4	1 981.4	3 589.6	5 962.1	10 535.2
Gold and foreign exchange	47.3	49.0	56.7	34.0	75.7	133.1	133.7	292.8	615.0	1 029.6
Foreign exchange receivables	11.2	10.2	8.7	10.3	51.2	147.2	284.6	520.8	868.0	1 157.9
Loans to organizations of associated labour performing economic activities	116.4	135.9	176.2	233.0	307.9	474.6	612.6	833.0	1 423.9	2 446.9
Loans to the Federal government and to other public institutions	12.5	16.9	14.3	14.7	17.4	24.3	37.2	31.1	27.9	41.3
Loans to households	3.8	4.8	4.8	5.8	7.7	11.8	10.9	11.1	14.6	23.3
Other assets[2]	36.5	58.1	137.1	196.5	410.7	565.4	902.4	1 900.8	3 012.7	5 836.2
Total long-term operations	473.7	603.3	778.1	968.0	1 241.9	1 425.2	1 764.2	2 376.2	3 503.5	5 109.0
Foreign exchange receivables from the rest of the world	0.7	7.9	10.0	13.6	20.7	25.8	32.2	48.1	69.9	108.6
Loans to organizations of associated labour performing economic activities	290.3	365.8	454.9	571.0	733.7	812.5	1 013.9	1 508.5	2 389.8	3 639.3
Loans to the Federal government and to other public institutions	70.0	89.5	101.9	120.1	137.2	147.6	154.6	178.8	190.4	212.0
Loans to households	24.7	38.1	48.0	53.2	57.3	63.3	91.3	106.5	171.8	251.1
Loans for housing construction	59.1	64.9	97.0	136.0	193.2	253.8	307.7	325.6	377.4	477.8
Other assets[3]	28.9	37.1	66.3	74.1	99.8	122.2	164.5	208.7	304.2	420.2
Total assets	701.4	878.2	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8	9 465.6	15 756.4
Total short-term liabilities	423.2	519.2	698.6	860.5	1 268.8	1 696.0	2 264.1	3 382.8	5 340.4	8 900.9
Foreign exchange liabilities	57.1	73.1	111.0	157.3	321.5	477.3	645.4	1 152.7	1 816.8	2 580.7
Money supply	206.5	251.1	315.3	375.1	461.6	584.3	740.0	888.7	1 272.0	1 863.5
Other and restricted deposits	112.4	135.2	155.2	195.7	254.7	329.8	509.0	597.1	1 028.9	1 827.1
Other[4]	47.2	59.8	117.1	132.4	231.0	304.6	369.7	744.3	1 222.7	2 629.6
Total long-term operations	241.6	314.2	419.4	536.4	769.7	998.9	1 376.9	2 457.5	3 961.6	6 611.6
Foreign exchange liabilities	71.6	98.9	144.6	197.1	349.6	512.1	783.3	1 715.7	2 961.8	5 083.7
Time deposits	55.8	71.8	105.2	132.1	163.1	208.4	252.4	298.3	459.3	708.2
Loans	114.2	143.5	169.6	207.2	257.0	278.4	341.2	443.5	540.5	819.7
Funds	36.6	44.8	57.9	65.4	74.0	86.7	104.6	125.5	163.6	243.9
Total liabilities	701.4	878.2	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8	9 465.6	15 756.4

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		1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
	Imports													
0. and 1.	Food, drink and tobacco	508	666	420	637	784	605	977	991	788	689	594	423	385
	of which: Cereals and cereal preparations	57	213	17	142	92	20	271	302	98	228	68	61	27
2.	Raw materials	486	1 004	739	693	940	995	1 205	1 544	1 637	1 422	1 313	1 423	1 458
	of which: Textile fibres and waste	193	419	255	248	335	348	376	415	457	424	324	439	452
3.	Mineral fuels	358	951	943	1 082	1 296	1 431	2 248	3 549	3 786	3 433	3 304	3 515	3 307
5.	Chemicals	450	811	834	791	989	1 140	1 653	1 824	2 027	1 658	1 758	1 756	1 665
6.	Semi-manufactures	1 081	1 806	1 747	1 364	1 763	1 698	2 243	2 376	2 595	2 007	1 845	1 822	1 951
	of which: Base metals	521	881	963	700	841	835	1 151	1 313	1 419	1 040	903	920	1 031
7. and 8.	Finished manufactures	1 598	2 239	2 899	2 731	3 791	4 058	5 637	4 674	4 816	4 071	3 243	2 956	3 290
	of which: Machinery	981	1 382	1 987	1 935	2 580	2 833	3 993	3 450	3 417	2 810	1 726	..	1 705
	Transport equipment	434	576	628	548	814	796	1 038	766	944	897	576	519	662
4. and 9.	Other	30	65	115	69	70	56	56	106	108	54	97	101	108
	Total	4 511	7 542	7 697	7 367	9 633	9 983	14 019	15 064	15 757	13 334	12 154	11 996	12 164
	Exports													
0. and 1.	Food, drink and tobacco	459	412	478	618	607	687	720	1 023	1 157	1 147	1 152	1 084	975
	of which: Live animals and meat	251	148	222	261	267	313	300	352	629	431	371	348	324
	Cereals and cereal preparations	62	73	36	103	86	80	23	108	152	113	264	205	179
2.	Raw materials	275	360	282	429	510	451	619	665	554	497	467	483	421
	of which: Wood	157	183	140	248	315	265	318	368	293	251	240	241	186
5.	Chemicals	176	384	380	353	331	469	636	1 010	1 377	1 073	960	995	1 190
6.	Semi-manufactures	814	1 245	1 180	1 337	1 204	1 259	1 606	1 994	2 414	2 251	2 320	2 342	2 359
	of which: Base metals	444	748	579	603	492	497	606	697	700	662	778	884	954
7. and 8.	Finished manufactures	1 088	1 342	1 712	2 077	2 409	2 598	2 939	3 996	5 162	5 043	4 732	6 011	5 368
	of which: Machinery	365	491	622	802	1 000	1 030	1 329	1 656	2 117	2 147	1 148	1 146	1 135
	Ships	178	248	304	287	415	421	252	317	310	323	339	503	819
3., 4. and 9.	Other	41	62	40	64	195	204	274	289	265	230	282	399	329
	Total	2 853	3 805	4 072	4 878	5 256	5 668	6 794	8 977	10 929	10 241	9 913	10 254	10 642

Source: Direct communication to the OECD.

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

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
						Imports, cif					
OECD countries	4 677	4 038	5 481	5 890	8 530	7 951	8 395	6 832	5 613	5 360	5 609
EEC	3 162	2 876	3 806	3 829	5 794	5 219	5 588	4 486	3 691	3 567	3 694
Italy	869	760	1 029	827	1 146	1 117	1 291	1 023	980	964	1 028
Germany	1 437	1 233	1 571	1 801	2 888	2 500	2 243	1 858	1 624	1 578	1 587
United States	417	370	546	615	1 059	1 015	957	846	775	620	778
Other	1 098	792	1 129	1 446	1 677	1 717	1 850	1 500	1 147	405	1 137
Centrally planned economies[1]	1 907	2 259	2 781	2 498	3 566	4 535	4 961	4 621	4 491	3 925	3 857
of which: USSR	807	1 002	1 301	1 375	1 793	2 698	2 966	2 737	2 463	1 964	1 977
Developing countries:	1 112	1 070	1 371	1 595	1 923	2 578	2 401	1 881	2 050	2 711	2 698
In Africa	159	258	323	397	570	936	1 126	833	187	168	1 160
In America	185	212	327	222	308	468	357	221	182	184	199
In Far-East	180	118	164	440	185	247	252	350	929	1 127	151
In Middle-East	588	482	555	536	860	927	666	477	752	1 232	1 142
In Europe											46
Total	7 697	7 367	9 633	9 983	12 861	15 064	15 757	13 334	12 154	11 296	12 164
						Exports, fob					
OECD countries	1 452	2 040	2 101	2 437	2 988	3 348	3 501	2 883	3 307	3 746	3 725
EEC	930	1 327	1 395	1 305	2 083	2 368	2 531	2 091	2 357	2 629	2 617
Italy	372	596	664	531	716	833	1 012	781	806	841	977
Germany	316	426	390	472	739	778	867	720	807	892	871
United States	265	354	297	371	373	393	387	311	346	432	463
Other	258	359	409	761	532	587	583	481	604	374	645
Centrally planned economies[1]	1 924	2 069	2 109	2 180	2 747	4 149	5 433	5 228	4 630	4 820	5 208
of which: USSR	1 012	1 142	1 138	1 394	1 401	2 489	3 644	3 424	2 699	2 797	3 397
Developing countries:	696	769	1 046	1 051	1 059	1 480	1 995	2 130	1 976	1 682	1 709
In Europe	3	4	6	3	4	5	4	4	8,0	4,6	63
In Africa	289	307	469	467	543	735	876	883	310	213	661
In America	68	57	122	47	27	57	74	65	62	85	194
In Far-East	161	203	151	300	128	206	311	293	984	904	237
In Middle-East	175	198	298	234	357	477	730	885	612	475	554
Total	4 072	4 878	5 256	5 668	6 491	8 977	10 929	10 241	9 913	10 254	10 642

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

Table M. **Balance of payments**[1]

Millions of US dollars

	1975	1976	1977	1978	1979	1980	1981[2]	1982	1983	1984	1985
Trade balance	–3 625	–2 489	–4 380	–4 317	–7 225	–6 086	–4 828	–3 093	–2 240	–1 739	–1 601
Exports, fob	4 072	4 878	5 254	5 671	6 794	8 978	10 929	10 241	9 914	10 254	10 622
Imports, cif	–7 697	–7 367	–9 634	–9 988	–14 019	–15 064	–15 757	–13 334	–12 154	–11 993	–12 223
Services and transfers, net	2 622	2 654	2 798	3 061	3 564	3 795	4 078	2 629	2 514	2 243	2 434
Transportation	473	429	568	585	731	832	1 044	906	795	780	922
Foreign travel	702	725	750	930	1 028	1 515	1 853	1 415	862	998	954
Investment income	–281	–279	–258	–300	–633	–1 084	–1 710	–1 773	–1 532	–1 638	–1 664
Private transfers and workers' remittances	1 310	1 415	1 427	1 745	1 710	1 539	2 042	1 268	1 167	1 189	1 001
Other services	418	364	311	101	728	993	849	813	1 222	914	1 221
Current Balance	–1 003	165	–1 582	–1 256	–3 661	–2 291	–750	–464	274	504	833
Long-term capital, net	1 141	1 285	1 263	1 597	1 590	2 281	1 458	479	1 363	–101	11
Loans received	1 219	1 415	1 463	1 702	1 740	2 516	1 708	679	1 519	1	100
Loans extended	–78	–130	–200	–105	–150	–235	–250	–200	–156	–102	–89
Short-term capital, net	6	–	75	247	283	739	261	–506	–647	–96	–36
Bilateral balances (–: capital outflow)	–137	–146	161	–65	–664	354	–770	–805	244	442	–434
Errors and omissions	123	183	147	–52	–153	–484	–79	284	–1 344	–213	–166
Reserve movements (+: increase)	130	1 487	64	471	–1 277	599	120	–1 012	–110	536	208

1. At statistical exchange rates except for 1985 which is at current rates. Statistical rates for 1983 and 1984 were, respectively, $1 = 63.40 dinars and $1 = 124.80 dinars.
2. 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.

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

BASIC STATISTICS:

INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period[1]	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population																											
Total	Thousands	1985	15 752	7 555	9 855 (84)	25 379	5 113	4 901	55 162	61 015	9 900 (84)	240 (84)	3 535 (84)	57 128	120 754	366 (84)	14 484	3 258 (84)	4 418	10 129 (84)	38 387 (84)	8 350	6 505 (84)	48 825 (84)	56 488 (84)	239 283	22 960 (84)
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	245	75	2	50	190	324	141	427	12	13	110	76	19	158	63	231	26	89
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	–0.1	1.0	1.1	1.2	0.3	0.8	0.2	0.6	0.7	0.3	0.9	0.9	0.2	0.1	2.2	0.0	1.0	0.8
Employment																											
Total civilian employment (TCE)[2]	Thousands	1985	6 676	3 235 (84)	3 579 (84)	11 311	2 457 (84)	2 427	20 939 (84)	25 003	3 501 (84)	114 (84)	1 096 (84)	20 509	58 070	158 (84)	4 965 (84)	1 281 (84)	2 012	4 068 (84)	10 422	4 299	3 169	14 912 (84)	23 918	107 150	..
of which: Agriculture	% of TCE		6.1	9.4	3.0	5.2	6.7	11.5	7.8	5.6	29.4	10.6	16.6	11.2	8.8	4.4	5.0	11.2	7.2	24.5	16.7	4.8	6.6	57.9	2.6	3.1	..
Industry	% of TCE		27.7	38.1	30.3	25.5	26.8	31.9	32.9	41.0	27.8	36.8	29.2	33.6	34.9	33.6	26.9	32.1	27.8	34.8	32.1	29.9	37.6	17.1	32.3	28.0	..
Services	% of TCE		66.2	52.5	66.8	69.3	66.5	56.5	59.3	53.4	42.8	52.6	54.2	55.2	56.4	62.0	68.1	56.8	65.0	40.7	50.9	65.3	55.8	24.9	65.1	68.8	..
Gross domestic product (GDP)																											
At current prices and current exchange rates	Billion US$	1984	173.7	64.5	75.8	334.1	54.2	51.2	489.4	613.4	33.4	2.6	17.6	350.1	1 255.0	3.4	123.1	23.2	54.7	19.3	160.9	95.2	91.1	49.6	423.4	3 634.6	43.5
Per capita	US$		11 178	8 535	7 697	13 285	10 601	10 493	8 907	10 025	3 378	10 723	4 986	6 144	10 457	9 235	8 534	7 159	13 215	1 905	4 192	11 414	14 002	1 018	7 495	15 356	1 896
At current prices using current PPP's[3]	Billion US$	1984	..	85.7	119.7	382.2	68.0	59.6	694.7	811.6	62.3	..	27.6	575.1	1 468.4	5.3	168.9	..	63.6	50.9	317.8	..	..	..	625.2	3 634.6	..
Per capita	US$		..	11 345	12 150	15 198	13 311	12 217	12 643	13 265	6 296	..	7 795	10 093	12 235	14 385	11 710	..	15 367	5 021	8 279	..	..	..	11 068	15 356	..
Average annual volume growth over previous 5 years	%	1984	2.6	1.6	1.0	1.7	1.5	3.3	1.1	0.9	0.8	1.1	2.1	1.2	3.9	1.7	0.3	3.1	2.6	1.3	1.4	1.6	1.5	3.9	0.6	2.0	..
Gross fixed capital formation (GFCF)	% of GDP	1984	21.8	21.8	16.1	18.1	17.3	23.4	18.9	20.3	18.5	22.2	21.0	18.2	27.8	22.2	18.4	21.5	25.6	24.7	17.8	18.4	23.3	18.5	17.4	17.9	21.9
of which: Machinery and equipment	% of GDP		10.4	9.0	5.4	6.8	7.7	8.5	9.1	7.9	7.6	5.8	10.9	7.5	10.1	9.1 (82)	8.2	8.8 (83)	7.5	13.8 (81)	5.9 (83)	8.2	7.3	9.1 (82)	8.1	7.4 (83)	..
Residential construction	% of GDP		5.4	4.8	3.1	3.7	4.7	6.5	4.9	6.4	3.8	5.8	5.5 (83)	4.9	5.0	4.8 (82)	5.1	4.1 (83)	3.7	7.8 (81)	5.1 (82)	4.1	16.0[9]	2.6 (82)	3.7	4.0 (83)	..
Average annual volume growth over previous 5 years	%	1984	1.3	–0.9	–3.6	–1.1	–2.9	3.8	–0.3	–0.7	–4.5	1.1	–2.9	1.3	1.6	–0.1	–2.3	4.3	3.1	–2.1	–1.4	0.4	3.5	0.1	0.7	2.5	..
Gross saving ratio[4]	% of GDP	1984	20.3	24.1	15.6	19.4	15.3	24.5	18.6	21.9	16.6	18.0	17.5	18.1	30.6	57.5	23.0	24.5	30.8	20.1	19.9	17.9	28.6	17.2	19.3	17.0	..
General government																											
Current expenditure on goods and services	% of GDP	1984	17.1	18.5	17.4	21.0	26.1	19.5	16.4	20.1	19.2	17.3	19.0	19.4	9.9	15.7	16.8	15.9	18.8	14.7	12.3	27.7	13.4	8.9	21.9	18.8	14.0
Current disbursements[5]	% of GDP	1984	33.4	44.8	52.9	44.0	58.0	36.2	49.4	44.2	40.2	26.4	51.1 (83)	51.9	27.1	48.7 (82)	56.5	..	44.8	37.5 (81)	31.8 (82)	59.8	31.2	..	44.9	36.9 (83)	..
Current receipts	% of GDP	1984	34.0	46.8	46.0	39.6	55.6	39.0	48.4	45.6	34.8	34.8	43.4 (83)	44.2	30.3	53.9 (82)	54.8	..	53.9	33.1 (81)	30.7 (82)	60.0	34.5	..	42.9	31.7 (83)	..
Net official development assistance	% of GNP	1984	0.46	0.28	0.56	0.50	0.85	0.36	0.77	0.45	..	..	..	0.33	0.35	..	1.02	0.25	1.02	..	..	0.80	0.30	..	0.33	0.24	..
Indicators of living standards																											
Private consumption per capita using current PPP's[3]	US$	1984	6 742*	6 490	7 637	8 484	6 826	6 287	8 009	7 274	4 118	6 335*	4 338	6 254	6 751	8 540	7 270	4 041*	6 624	3 076	5 456	5 821*	8 755*	759*	6 535	10 214	966*
Passenger cars, per 1 000 inhabitants	Number	1984	..	306 (81)	335	421 (82)	282	303	360 (83)	412	108 (83)	418	206 (83)	359 (83)	221 (83)	414 (85)	341 (85)	446	345	135 (82)	231	369	392	18 (82)	312 (83)	473	121 (83)
Telephones, per 1 000 inhabitants	Number	1984	540 (83)	460 (83)	414 (83)	664 (83)	749	584	541 (83)	598	336 (83)	525 (83)	235 (83)	405 (83)	535 (83)	404	401 (85)	616	622	166 (83)	360	890	1 299	55 (83)	521	650	122 (83)
Television sets, per 1 000 inhabitants	Number	1984	..	300 (81)	303	471 (80)	371	364 (85)	297 (80)	367	158 (80)	290	181 (80)	243 (83)	250 (80)	336 (83)	315 (85)	291	320	140 (80)	256 (82)	390	329	76 (79)	336	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	Number	1984	..	1.7 (82)	2.8	1.8 (82)	2.5	2.2	2.1 (82)	2.4 (83)	2.8 (83)	2.3 (83)	1.3 (82)	3.6 (82)	1.3 (82)	1.7	2.2	1.6 (80)	2.1 (83)	1.8 (82)	3.2	2.3 (83)	1.4	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	Number	1984	9.6 (83)	11.9 (83)	11.3 (83)	9.1 (83)	7.7	6.5	8.9 (83)	9.6	14.6 (83)	6.1	9.8 (83)	12.3 (83)	6.2 (83)	11.7	8.3	12.5 (83)	8.3	19.0 (83)	10.5 (83)	6.4	7.1	..	10.1	10.6	31.7 (83)
Wages and prices (average annual increase over previous 5 years)																											
Wages (earnings or rates according to availability)	%	1984	10.3	5.7	5.7 (85)	7.2 (85)	7.1 (85)	11.1	12.5	4.1 (85)	26.6	..	14.7	16.3 (85)	4.6 (85)	..	3.7 (85)	12.1	9.6	20.0	16.5	8.7 (85)	..	..	10.2 (85)	5.5 (85)	..
Consumer prices	%	1985	8.3	4.9	7.0	7.4	7.9	8.5	9.6	3.9	20.7	48.7	12.3	13.7	2.7	6.9	4.2	12.0	9.0	23.2	12.2	9.0	4.3	37.8	7.2	5.5	47.7
Foreign trade																											
Exports of goods, fob*	Million US$	1985		17 220	53 664[7]	87 360	17 040	13 560	97 008	183 312	4 560	804	10 380	78 401	177 216	..[8]	68 472	3 924	19 908	6 051	24 192	30 348	27 120	7 116 (84)	101 544	213 144	6 312
as % of GDP	%			26.7	70.8	26.1	31.4	26.5	19.8	29.9	13.6	30.9	59.0	22.4	14.1	..	55.6	16.9	36.4	31.4	15.0	31.9	29.8	14.3	24.0	5.9	13.7
average annual increase over previous 5 years	%			–0.2	–3.6	6.1	0.4	–0.8	–2.7	–0.9	–2.5	–2.7	4.1	0.1	6.5	..	–1.5	–2.2	1.5	5.5	3.0	–0.4	–1.7	23.5	–2.5	–0.7	–5.9
Imports of goods, cif*	Million US$	1985		20 964	56 052[7]	76 860	18 192	13 140	107 148	157 584	10 224	900	10 044	90 506	131 304	..	65 412	4 639	15 492	8 148	29 916	28 476	30 432	10 908 (84)	109 920	345 276	7 224
as % of GDP	%			32.5	73.9	23.0	33.6	25.7	21.9	25.7	30.5	34.6	57.1	25.9	10.5	..	53.1	20.0	28.3	42.2	18.6	29.9	33.4	22.0	26.0	9.5	15.7
average annual increase over previous 5 years	%			–2.9	–4.8	5.4	–1.2	–3.4	–4.5	–3.2	–0.8	–2.0	–2.1	–1.9	–1.4	..	–3.2	0.4	–1.8	–2.6	–2.6	–3.2	–3.5	–13.9	–1.8	7.4	–12.9
Total official reserves[6]	Million SDR's	1985	5 528	5 080	5 611	2 982	4 999	3 481	27 071	43 735	935	189	2 689	16 458	25 173	..	11 354	1 464	12 711	1 978	10 686	3 449	19 317	1 200	12 373	38 412	1 062
As ratio of average monthly imports of goods	Ratio		2.9	3.0	1.2	0.5	3.3	3.2	3.1	3.4	1.1	2.6	3.3	2.2	2.3	..	2.1	0.3	10.0	3.0	4.4	1.5	7.7	1.3	1.4	1.4	1.8

* At current prices and exchange rates.
1. Unless otherwise stated.
2. According to the definitions used in OECD *Labour force Statistics*.
3. PPP's = Purchasing Power Parities.
4. Gross saving = Gross national disposable income *minus* Private and Government consumption.
5. Current disbursements = Current expenditure on goods and services *plus* current transfers and payments of property income.
6. Gold included in reserves is valued at 35 SDR's per ounce. End of year.
7. Including Luxembourg.
8. Included in Belgium.
9. Including non-residential construction.

Sources:
Population and Employment: OECD *Labour Force Statistics*.
GDP, GFCF, and General Government: OECD *National Accounts*, Vol. I and OECD *Economic Outlook, Historical Statistics*.
Indicators of living standards: Miscellaneous national publications.
Wages and Prices: OECD *Main Economic Indicators*.
Foreign trade: OECD *Monthly Foreign trade Statistics, series A*.
Total official reserves: IMF *International Financial Statistics*.

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