1987/1988

OECD ECONOMIC SURVEYS

YUGOSLAVIA

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YUGOSLAVIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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

Publié également en français.

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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) 1986	142.0
Forest area (1 000 sq. km) 1986	93.0
Population (30.06.1986, 1 000)	23 270
Republics:	
Serbia	9 657
Croatia	4 665
Bosnia and Herzegovinia	4 356
Macedonia	2 041
Slovenia	1 932
Montenegro	619
Major cities (1981, 1 000):	
Belgrade	1 470
Zagreb	856
Skoplje	505
Sarajevo	449
Ljubljana	305

Net increase in population, 1971-1986 (1 000), annual average	180
Total paid employment (1986, 1 000)	6 716
of which:	
Industry	2 625
Building	586
Agriculture (social sector)	239
Active population in private agriculture (1986, 1 000)	2 200

PRODUCTION

Gross national product at factor cost (1986, billion dinars)	22 073.2
Gross domestic product per head (1986, US $)	2 588
Gross fixed capital formation:	
1986 (billion dinars)	5 047
1986 (per cent of GNP)	21.2

Origin of GDP in 1986 (per cent of GDP):	
Agriculture, forestry and fishing	13.4
Mining and manufacturing	37.6
Building	7.3
Other	41.7

GOVERNMENT

Government consumption (1986, per cent of GDP)	14.3
General government revenue, including social security (1986, per cent of GDP)	32.2

FOREIGN TRADE

	Structure of exports in 1987 (per cent)	Structure of imports in 1987 (per cent)
Food, drinks, tobacco	8.7	5.8
Raw materials and semi-finished goods	44.4	59.7
Finished manufactures	46.9	34.5

THE CURRENCY

Monetary unit: Dinar

Currency units per US $, average of daily figures:	
Year 1987	742.34
May 1988	1 934.29

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

This Survey is based on the Secretariat's study prepared for the annual review of Yugoslavia by the Economic and Development Review Committee on 4th May 1988.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 7th June 1988.

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The previous survey of Yugoslavia was issued in January 1987.

Introduction

Since Yugoslavia was last examined by the Economic and Development Review Committee in November 1986 the performance of the economy has remained unsatisfactory. According to preliminary estimates, total output in 1987 was even marginally lower than the previous year, labour productivity fell significantly and average net real earnings in the socialised sector underwent an unprecedented drop of some 20 per cent in the course of the year. At the same time, inflation accelerated dramatically, with the twelve-month increase in consumer prices attaining 167 per cent by December 1987, almost doubling within one year. The one more reassuring feature was the re-emergence of a relatively comfortable current external surplus in convertible currencies ($1 billion) which, however, owes more to severe import restrictions than to buoyancy of real exports.

In order to break the vicious circle of stagflation, the authorities have taken or announced a series of new measures. Tighter price and income controls were introduced in November 1987 to arrest serious tendencies to runaway inflation. At the same time, more determined initiatives were undertaken to speed up the process of structural and institutional reforms. The Economic Resolution for 1988 foresees a modest recovery of output and labour productivity but envisages further, if small, cuts in real incomes. A big question mark hangs over the inflation outlook. The partial price freeze has not been particularly well adhered to and the risk of an accelerating price/wage spiral remains. In May an important programme for liberalising prices, imports and foreign exchange markets was announced and at the same time measures were taken to limit the growth of wages, public spending and monetary aggregates up to the end of 1988.

Part I of this Survey reviews economic developments in 1987 with particular emphasis on the failure to arrest inflationary pressure. Part II provides an overview of unsolved systemic weaknesses and recent corrective moves in some critical areas. Part III is devoted to structural problems in foreign trade and international competitiveness which have constituted serious and recurrent constraints on growth and the achievement of better external and internal financial balance. Part IV presents policy goals for 1988 and discusses the short-term outlook. Part V summarises the main findings of the Survey and includes some policy considerations.

I. The 1987 Resolution and results

The previous OECD Survey of Yugoslavia, published in January 1987, had warned that the macroeconomic goals, notably the inflation objective set for 1987, could not be achieved unless monetary conditions were tightened and effective mechanisms put into place to reduce the scope for nominal pay increases. In the event, this did not prove feasible and the economy was increasingly thrown out of balance. Indeed, the lifting of the partial price freeze towards the end of 1986 was followed by an excessive growth of personal incomes and strong increases in private consumption in the early months of 1987. As from the end of February, restrictive measures started to be introduced. Moreover, around the middle of the year import curbs were imposed in the face of strong, partly speculative, demand for imports and capital flight. These measures contributed to reducing domestic demand and improving the balance-of-payments situation in the second half of 1987 but failed to arrest the steep upward inflation trend. In view of this situation, additional anti-inflationary measures were introduced in mid-November 1987. The Government also made proposals for a number of important institutional and structural reforms which, however, require lengthy procedures before becoming law.

The 1987 outcome confirmed the unstable pattern of economic development observed since 1980: relaxation of policy and a year of relatively fast growth (1986) leading to overheating and followed by a period of policy-induced stagflation. This highlighted the continuing need for more drastic institutional and structural reforms in order to achieve a more sustainable recovery. Taking the year as a whole, the outcome in most areas diverged significantly from the targets of the 1987 Economic Resolution (see Table 18 Part IV). All demand components fell considerably short of targets, and GSP[1] may even have declined slightly instead of a projected growth of 3 per cent. Similarly, key performance indicators, such as productivity and net investment, showed negative growth rates. These disappointing results on the real side were accompanied by a strong acceleration of consumer price inflation of 167 per cent in the year to December 1987, almost double the rate of a year earlier, whereas the achievement of a balance-of-payments surplus in convertible currencies reflected more import cuts and falling domestic demand than renewed export dynamism.

Conjunctural policies

Demand and income policies in 1987 were intended to be moderately restrictive, with the main emphasis being placed on real variables such as output, employment and real wages rather than nominal objectives like inflation, nominal income, etc. Given the high underlying rate of inflation and the related difficulty in forecasting the development of real aggregates, the authorities shifted certain plans and targets from an annual to a quarterly basis. However, the fact that successive quarterly targets were always based on what had happened in the the previous quarters resulted in a high degree of accommodation of rising inflation. The authorities tried to break the accelerating price-wage spiral, primarily by introducing **administrative** measures in the form of Intervention Laws and corresponding Social Compacts[2] aimed at reducing real wages in the last three quarters of the year. The so far limited recourse to traditional macroeconomic demand management instruments is not only a reflection of limited experience and lack of instruments but must also be seen against the background of institutional rigidities and the pervasive lack of appropriate market signals.

Fiscal policy

The 1987 Federal Budget and Resolution set restrictive expenditure targets aimed at reducing or at least stabilizing the public sector's share in GSP, implying hardly any growth in real terms[3]. For a number of expenditure categories, representing about one-third of total expenditure, strict rules were established: expenditure in the first quarter of 1987 was to be frozen at the fourth quarter level of 1986 and subsequent increases to be held somewhat below the growth of nominal income in the enterprise sector. The application of these rules implied substantial real falls in most of these expenditure items, including the wage bill and to a lesser extent defence expenditure. Laws were passed obliging other levels of government to comply with the same rules, with quarterly controls being established both at the Federal and the Republican and "Autonomous" Provinces' levels.

The other important public expenditure items (pensions, health, social security protection, mother and child allowances) were planned to rise somewhat faster than GSP. In particular, pensions payments (one-fifth of total public expenditure) were projected to increase considerably faster. Apart from further recuperation of inflation-induced real losses, it was decided that as from 1987 pensions would be indexed to wage increases, which in the Resolution were projected to increase slightly in real terms. Moreover, the rise of pension payments reflected the fast growth of the

Table 1. **The Federal budget**

	Billion dinars				Percentage change			
	1985	1986 Outcome	1987	1988 Budget	1985	1986	1987	1988
Regular revenue	686	1 375	3 009	5 660	75.4	100.4	118.9	88.1
Customs duties	150	324	789	1 729	71.7	115.9	143.5	119.1
Basic sales tax	264	491	1 538	2 735	62.8	85.3	213.5	77.8
Contributions from republics and autonomous provinces	251	533	622	1 127	92.1	112.5	16.6	81.3
Other	21	27	59	68	94.4	28.4	122.1	14.8
Expenditure	693	1 362	2 982	5 628	78.3	96.5	120.9	88.8
Defence	460	968	1 971	3 730	86.4	99.8	103.6	89.3
Administration	48	90	198	335	58.4	85.9	120.8	68.9
Grants to republics and autonomous provinces	60	54	188	447	70.0	–10.5	250.7	137.3
Investment	5	8	8	15	181.3	77.8	1.3	90.1
Grants to pension funds	106	214	585	1 055	44.2	101.5	173.7	80.2
Other	15	29	31	46		96.6	101.7	49.7
Balance on regular account	–7	13	27	32				
Financial transactions								
Budget reserves	0	0	0	1				
Debt repayments and other	3	12	27	31				
National Bank of Yugoslavia	–10	–	–	–				
Memorandum item:								
Expenditure, per cent of GSP	6.2	6.5	6.2	6.4				

Note: Data may not add due to rounding.
Source: Data submitted by national authorities.

number of pensioners,which since 1985 has been almost twice as high as the increase in employment.

Given the traditional balanced-budget rule, the planned growth of public sector revenues was limited to that of expenditure. If during any one quarter revenue exceeded expenditure (especially in social security and welfare accounts) taxes and contributions were to be reduced in the following quarter so as to prevent extra public spending in that quarter. The share of the Federal budget in basic sales tax receipts was raised from half to three-quarters and that for Republics and Provinces was correspondingly lowered (Table 1). To compensate for this loss the contributions from the Republics and Provinces to the Federal budget were reduced. Before 1987, receipts from the basic sales tax accruing to the Republics and Provinces were used to pay contributions to the Federal budget. The decision to change shares was taken

Table 2. **Consolidated public sector accounts**[1]

	Billion dinars				Per cent			
	1984	1985	1986	1987	1984	1985	1986	1987
Revenue								
Direct taxes[2]	1 055	2 004	5 045	10 683	53.2	57.5	65.8	66.6
Indirect taxes[3]	669	1 106	2 145	4 396	33.8	31.7	28.0	27.4
Other taxes and non-tax revenues	258	378	473	959	13.0	10.8	6.2	6.0
Total revenue	1 981	3 488	7 663	16 038	100.0	100.0	100.0	100.0
Expenditure								
National defence and administration	461	863	1 809	3 768	23.6	25.0	23.8	23.6
Education	239	451	1 037	2 172	13.7	13.1	13.6	13.6
Social security and welfare	745	1 364	3 223	7 591	36.9	39.5	42.4	47.6
Intervention in the economy	262	385	774	1 550	8.9	11.2	10.2	9.7
Other expenditure[4]	255	387	754	862	16.9	11.2	10.0	5.5
Total expenditure	1 962	3 450	7 597	15 943	100.0	100.0	100.0	100.0
Balance	19	38	66	95				
Memorandum items:								
Total expenditure, per cent of GSP	31.0	30.6	34.4	33.5				
Total expenditure, per cent of GDP	28.0	27.0	30.4					

Note: Data may not add due to rounding.
1. Net of intra public sector transfers; including communities of interest but excluding the Federal Fund for the Development of Underdeveloped Republics and Provinces.
2. Includes taxes on income and profits of enterprises and individuals, social security contributions, employers' payroll taxes and property taxes.
3. Includes taxes on goods and services and external transactions.
4. Includes housing expenditure, investment and consumption subsidies.

Source: Data submitted by national authorities.

with the purpose of simplifying administrative procedures and strengthening the Federal government's control over its own budget.

When the 1987 Federal Budget and Resolution were adopted, inflation was officially projected to slow down and activity to expand. As it happened, the opposite occurred and the Intervention Laws which restricted real wages, outlays on services and investment also affected fiscal trends in 1987. Public expenditure grew by nearly 110 per cent, somewhat slower than nominal GSP (Table 2). This was exclusively due to the marked fall of real wages in almost all public sector agencies, lower real defence expenditure and the measures restricting public sector investment in the areas of social activities and welfare. By contrast, for the reasons already mentioned, outlays on pensions increased by around 5 per cent in real terms, whereas they declined by about the same rate for all other social and educational activities. All in all, preliminary estimates suggest that the general government account remained in small surplus and that the share of public expenditure in GSP fell to 33.5 per cent, pointing to a fairly restrictive fiscal stance in 1987.

Monetary policy

Following overall easy monetary conditions in 1986, the authorities announced a shift to a tighter stance in 1987 together with measures to increase the efficiency of monetary instruments (see Part II). For the first time, monetary targeting was to be implemented on a quarterly basis. The targets for growth of M1 and dinar credit were set at 4.5 and 5.5 per cent for the first quarter of 1987[4]. These targets excluded valuation effects[5] and were consistent with an annual growth of M2 (including valuation effects) by about 50 per cent compared with 85 per cent recorded during 1986.

From the very beginning adherence to the tight targets proved difficult, largely because of accelerating inflation and the uneven profile of GSP growth in the course

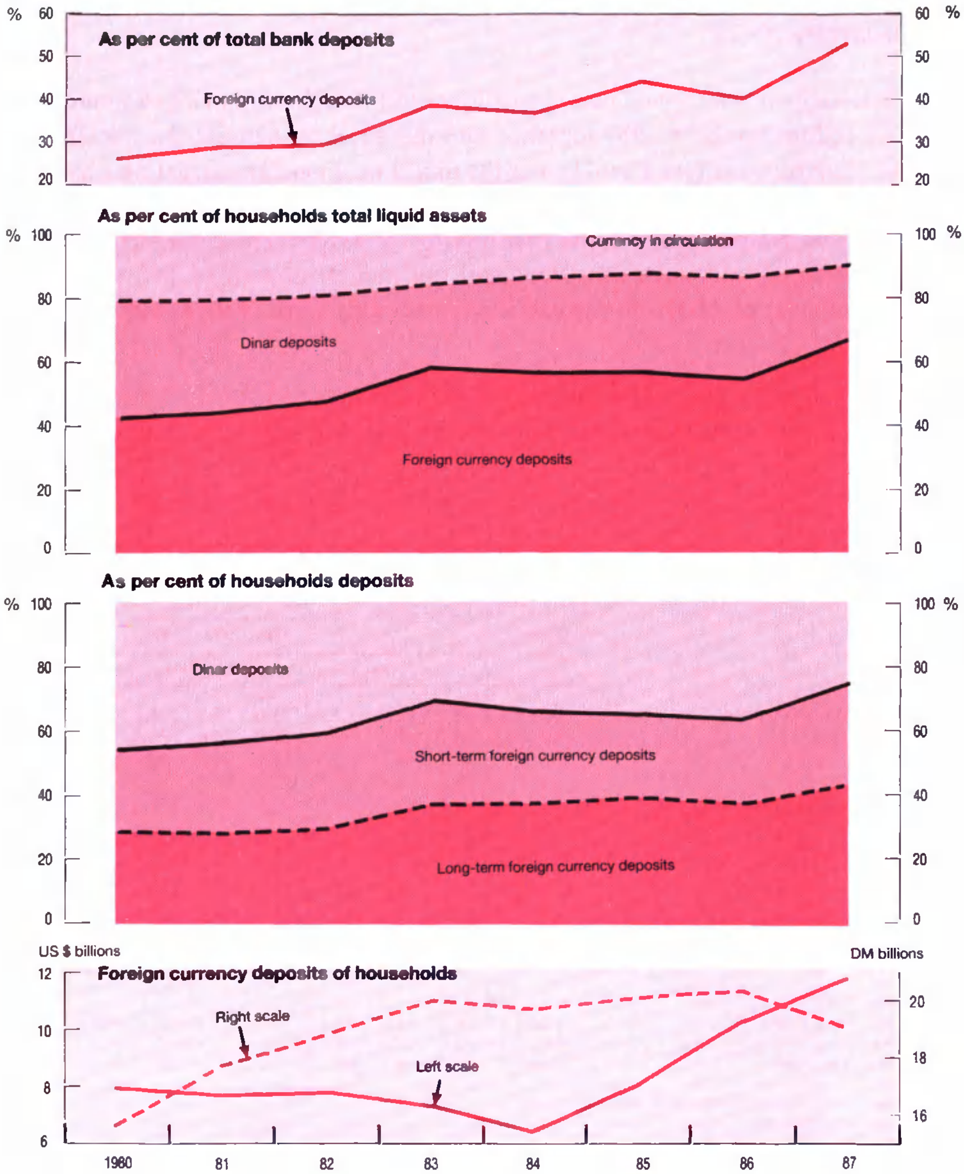
Table 3. **Selected monetary indicators**

	1986 Billion dinars	1984	1985	1986	1987 Q1	1987 Q2	1987 Q3	1987 Q4	1988 Q1
		Percentage change from previous year							
Net foreign exchange assets	5 568	74.4	63.2	63.5	78.1	77.2	126.1	180.7	141.2
M1, money supply[1]	3 896	43.1	46.5	109.1	106.8	95.6	87.6	99.9	110.6
Quasi-money	8 925	49.2	66.7	76.0	83.3	66.2	90.4	142.4	131.2
Dinar deposits	3 777	56.9	62.8	87.5	69.8	39.9	43.2	58.0	61.0
Foreign exchange deposits	5 148	44.4	69.4	68.3	92.4	83.7	122.3	204.3	172.9
M2 broad money[2]	12 820	47.4	60.7	84.8	89.8	73.9	89.6	129.5	125.0
Net domestic assets[3]	18 388	55.2	61.5	77.8	85.9	75.0	100.9	144.9	130.1
Domestic credit	13 037	47.1	51.8	67.4	83.9	78.0	94.6	105.0	104.6
of which: dinar credit	9 075	29.9	40.9	78.9	92.8	83.3	78.5	66.2	75.2
Other items, net	5 351	82.4	87.6	100.3	89.9	70.4	113.1	242.2	212.5
Memorandum items:									
Inter-enterprise credit[4]	11 246	56.1	73.0	77.8				107.0	
Money velocity[5]	1.72	5.6	11.0	5.7				–5.5	
Gross social product	22 055	55.6	78.4	95.4				117.0	

1. Defined as currency plus dinar cheque accounts.
2. M1 plus Quasi-money.
3. Defined as domestic credit from the banking sector plus other net assets of all banks including National Bank of Yugoslavia.
4. Trade credit received by enterprises.
5. Ratio of GSP to M2.

Sources: National Bank of Yugoslavia, *Quarterly Bulletin* and data submitted by national authorities.

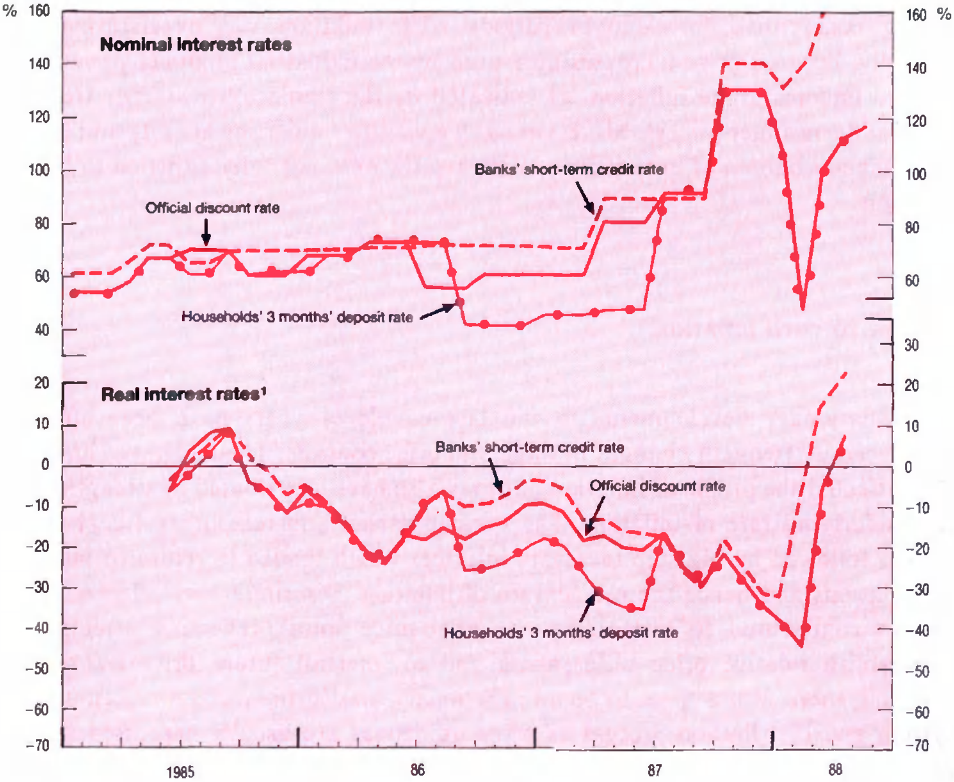
Diagram 1. **CHANGING STRUCTURE OF BANK DEPOSITS**



Sources: Data submitted by the National Bank of Yugoslavia and OECD Secretariat estimates.

of the year. Despite regular acceptance of the base drift, and allowance for a stronger inflationary momentum than implied in the Resolution, the growth of both domestic credit in dinars and M1 exceeded their successive quarterly targets. Including **foreign exchange** liabilities of enterprises and foreign exchange deposits of households, the growth of total domestic credit and M2 amounted to 105 per cent and 130 per cent respectively (66 per cent and 79 per cent, excluding those foreign exchange liabilities and deposits). These growth differences are almost exclusively due to valuation effects which were particularly important in the closing months of 1987. The quantitative importance of these effects[6] underlines the difficulties in monetary

Diagram 2. **INTEREST RATES**



1. Real interest rates are calculated by dividing nominal interest rates by the annualized monthly inflation rate.
Note: Since the middle of 1987 the official discount rate and the households' 3-month' deposit rate are identical.
Sources: Data submitted by the National Bank of Yugoslavia and OECD estimates.

management, notably in periods of high inflation and sagging confidence in the value of the dinar. Indeed, if it had not been for the valuation effects, the monetary expansion would have been more closely in line with the announced restrictive policy stance.

Contrary to declared objectives, real interest rates remained strongly negative throughout 1987, and increasingly so when deflated by the underlying monthly rate of inflation (Diagram 2). At the end of 1986, the National Bank of Yugoslavia (NBY) changed the formula for setting nominal interest rates (the annual rate of increase in industrial producer prices during the previous three months plus that projected during the following four months) by eliminating the forward-looking element of the adjustment which had typically underpredicted price increases. As from January 1987, the NBY fixed its discount rate by taking the annualised rate of inflation during the previous six months plus 1 percentage point[7]. However, even this new formula failed to produce the desired results as the rate of interest was kept stable during consecutive three-month periods while inflation was accelerating and secondly, because price increases measured by the industrial producer price index tend to underestimate inflation, as indicated by the significantly steeper trend of retail and consumer prices[8]. Moreover, with a view to supporting activity and easing the financial burden of enterprises, interest rates were not fully adjusted to higher inflation.

Failure to curb inflation

Inflationary developments in the last couple of years have been strongly influenced by frequent changes in wage and price controls. These changes have not only affected the profile of inflation but may also have contributed to strengthening the underlying rate of inflation. The various partial and temporary freezes were always followed by big step increases in prices which tended to reinforce inflation expectations and hence the momentum of inflation. Discriminatory selective price freezes contributed to reinforcing the price-price spiral, reflecting attempts to re-establish relative price differentials and to forestall future price freezes. In addition, there would seem to be an inflationary bias in the income determination system and distribution process as wage guidelines are usually expressed in real terms, while rules concerning the distribution of gross enterprise income refer to percentages of nominal values. And in a non-competitive environment each individual enterprise will seek to achieve the desired distribution by raising its prices rather than by compromising on nominal pay increases or employment for that matter.

Rising inflationary expectations prior to the termination of the four-month partial price freeze in November-December 1986[9] and the associated upsurge of both nominal and real pay rises towards the end of 1986 had set the stage for mounting inflationary pressures in the course of 1987. In reaction to these developments the authorities introduced successive stabilisation packages. The Intervention Law of 26th February stipulated that:

i) Wages (and collective consumption)[10] in non-economic sectors[11] be rolled back to the level of the fourth quarter 1986 and frozen at that level up to the end of June.

ii) Real wages (and collective consumption) in the economic sectors to grow in line with labour productivity during the first two quarters of 1987. This clause aimed at preventing a further fall in the share of net savings (accumulation) in the net income of enterprises.

On 29th March price controls were strengthened, certain prices were cut and the regime applying to different groups of industrial products (see Annex I) was modified, leading to a decline in the proportion of products whose prices are freely determined. Further, but small, shifts in the price regime took place later in the year. In July the new Social Compact on income distribution was adopted. All enterprises were encouraged to sign it. Non-signing enterprises automatically fell under the Law of Rehabilitation (see Part II), obliging them to fix real wages 20 per cent below the average of the previous year. The Social Compact included the following directives:

i) The income distribution laws promulgated by the individual Republics and Provinces should aim at increasing the share of net accumulation (retained earnings).

ii) The enforcement of the laws on income distribution should be strengthened and for the first time quarterly targets and monitoring by Republics and Provinces was to be implemented.

On 14th November a new Intervention Law was passed clamping down on wage increases and freezing most industrial producer prices for six months, to the middle of the second quarter 1988 (see Part IV).

After the introduction of the first Intervention Law on incomes in February, the rate of growth of wages slowed down immediately (Diagram 3). However, wage restraint failed to arrest the rising inflation trend, and this entailed a substantial fall

Table 4. **Prices and wages**

Percentage change from previous year

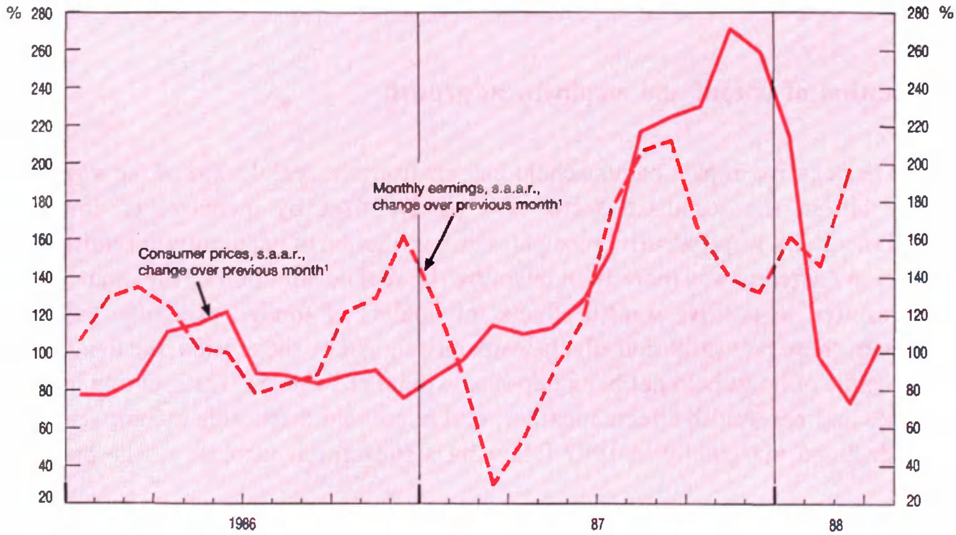
	1982/1980	1983	1984	1985	1986	1987	Dec. 86/Dec. 85	Dec. 87/Dec. 86	April 88/April 87
Producer prices									
Industrial goods	35	32	57	82	71	90	68	159	132
of which:									
Electricity	38	30	86	56	89	158	147	212	140
Agricultural goods	45	45	44	60	85	96	74	127	..
Retail prices	38	39	57	76	88	118	92	168	152[1]
of which:									
Agricultural products	39	43	40	67	89	117	82	167	161
Industrial products	40	39	62	76	87	117	94	165	152
Consumer prices[2]	37	41	53	74	89	120	91	171	160
Goods	38	42	55	73	89	118	90	168	162
of which:									
Food	40	45	47	70	90	111	82	160	172
Services	25	31	40	76	96	138	97	180	145
Net average earnings, socialised sector	31	26	44	78	108	105	125	108	167[3]
Economic sector	31	27	44	78	107	105	126	109	167[3]
of which:									
Industry	32	28	45	77	105	105	122	111	167[3]
Non-economic sector	27	24	44	80	113	106	121	105	167[3]
Real net average earnings, socialised sector	-5	-11	-6	2	10	-7	17	-23	4[3]

1. 149 per cent increase May 1988/May 1987.
2. Cost-of-living index.
3. March 1988/March 1987.

Sources: *Indeks*, Federal Statistical Office and data submitted by national authorities.

in real wages (in line with the objective of the law). The impact of the price curbs of March was small and of short duration. The products whose prices were cut account for only 8 per cent of the value of industrial production and reduced the rise of industrial producer prices by no more than 2 percentage points. Prices of services and more importantly of agricultural products, which were excluded from the measures, continued to rise rapidly. Not surprisingly, after a short pause, the price-wage spiral was again set in motion, with the annual rate of consumer price inflation climbing to around 250 per cent in the three months to October compared with some 85 per cent early in the year (before the 1987 income and price measures were introduced). Inflation measured on a year-to-year basis masks the strong acceleration through 1987. The increase in consumer prices was 167.4 per cent in the twelve months to December 1987, a little less than twice as fast as during the previous year (Table 4). It is interesting to note that during the period of rapidly accelerating inflation the earlier big differences in the rate of increase in prices between the three main categories – food, manufactured products and services – tended to disappear, so that by the end of 1987 the year-to-year increase of the three main components of the price index was broadly similar.

Diagram 3. **THE WAGE-PRICE SPIRAL**
Per cent change



1. 3-month moving average.
Sources: OECD, *Main Economic Indicators* and OECD estimates.

The sharp acceleration in inflation cannot be explained in terms of traditional demand-pull and/or cost-push analysis. All indicators point to a sharp contraction of real domestic demand from early spring onwards. On the cost side, since February 1987 wage growth either lagged behind or followed closely price increases and there was also a sharp slowdown in the growth of (nominal) wage rates in the four months to May. As a result, average real net earnings declined by over 20 per cent in the year to December and by 7 per cent in 1987 as a whole, with losses broadly shared by all professional categories and economic sectors. The steep rise in nominal interest rates as well as directives for increasing depreciation allowances and enterprise net saving have added to the upward pressure on costs. However, any such effects were probably outweighed by nominal wages rising less fast than inflation. Similarly, the inflation impact of import prices seems to have been small as the effective exchange rate depreciated little in real terms until the middle of November. This decomposition of possible inflationary sources suggests that the explanation of the strong inflation momentum lies in the existence of powerful price-price links and price-wage spiralling effects operating in a non-competitive environment and fuelled by virulent inflation expectations. In addition, the partial and on-and-off nature of price and wage controls may also have contributed.

Stagnation of output and employment growth

The negative impact on household income from the real decline of the wage and salary bill in the socialised sector was partly offset by increases of emigrant remittances and social security receipts. The contraction of net emigrant remittances in foreign currency was more than offset by the real devaluation of the dinar which also resulted in positive wealth effects for holders of foreign exchange deposits. However, these real valuation effects were outweighed by the erosion due to inflation of the value of household net bank deposits in dinars (Table 5). Thus, taking income changes and net wealth effects together, real household disposable income seems to have declined marginally in 1987 following a substantial increase in the previous year.

According to preliminary official estimates corroborated by available data on retail sales, private consumption fell somewhat in 1987 (Table 6), with the fall being concentrated in the second half of the year. However, to the extent that labour is remunerated in kind, private consumption may be underrecorded and the level of stockbuilding inflated[12]. Furthermore, a growing proportion of Yugoslav tourists abroad in effect go shopping, especially to neighbouring countries, without recording their purchases. Allowing for these statistical loopholes, the actual decline in real private consumption was probably marginal in 1987. By contrast, the decline of real public consumption was significant (see above).

Economic factors as well as administrative decisions depressed investment in 1987. Sluggish domestic demand and uncertain sales prospects had a damping effect on business expectations. Moreover, changes in accounting rules and related financial consolidation efforts required increases in reserves and liquid assets, diverting resources from fixed investment. Also, the access to bank lending and

Table 5. **Household income**[1]

Billion dinars at constant 1986 prices

	1982	1983	1984	1985	1986	1987[2]
Net salaries and other personal income in the socialised sector[3]	7 461	6 789	6 621	7 065	7 949	7 535
Net profits and salaries in the private sector	1 195	1 246	1 119	916	1 056	1 051
Social security transfers	2 008	1 871	1 750	1 808	2 278	2 305
Consumption in kind	941	988	949	918	886	765
Remittances from abroad	1 407	1 062	1 400	1 131	860	898
Interest receipts, net	311	427	536	863	832	755
Other income	368	327	281	231	381	500
Total household income	13 692	12 710	12 656	12 933	14 242	13 809
Less: Taxes[4] and fees	347	323	324	301	339	339
Disposable household income	13 345	12 387	12 332	12 632	13 903	13 470
Private consumption	11 330	10 983	11 093	11 230	11 788	11 429
Savings rate (per cent)	(15.1)	(11.3)	(10.1)	(11.1)	(15.2)	(15.2)
Including valuation effect[5]						
Disposable household income	13 536	12 705	12 476	12 547	13 680	13 902
Savings rate (per cent)	(16.3)	(13.6)	(11.1)	(10.5)	(13.8)	(17.8)
Including valuation effect and erosion of net dinar assets[6]						
Disposable household income	13 197	12 223	12 107	12 005	13 043	13 037
Savings rate (per cent)	(14.1)	(10.2)	(8.4)	(6.5)	(9.6)	(12.3)

1. The household account is partly based on standard SNA definitions deflated by the consumer price index (cost of living). Non-productive services are included in private consumption, while social security contributions paid by employers are excluded from household income.
2. OECD estimates.
3. 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.
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 decrease in the value of net dinar assets, i.e. excluding credit to households, due to inflation. The annual erosion is equivalent to a negative income flow.

Sources: Federal Statistical Office, *Annual Yearbook of Yugoslavia, 1987*; data submitted by national authorities, and OECD Secretariat estimates.

inter-enterprise credit was made more difficult. As a result, following a small increase in 1986 (the only one since 1979), business investment is estimated to have declined by about 5 per cent last year. In addition and in line with the Intervention Law of February 1987, many public sector investment projects were postponed. "Non-economic" investment actually fell by 15 per cent in volume. Housing investment also shrank markedly (10 per cent), reflecting declining housing construction by enterprises and individuals. Until 1986, individuals used to obtain bank credit at fixed, negative real interest rates at the time of getting the loan, which in the face of

Table 6. **Demand and output**[1]

	1986 Billion dinars current prices	1983	1984	1985	1986	1987[2]
		Percentage change at constant 1985 prices				
Private consumption	11 206	−1.7	−1.0	0.0	4.5	−1.0
Public consumption[3]	1 910	−4.0	−0.2	1.9	4.6	−3.0
Fixed investment	5 047	−9.7	−9.6	−4.0	3.5	−4.0
Final domestic demand	18 163	−4.6	−3.6	−1.0	4.2	−2.0
Stockbuilding[4]	3 949	2.8	3.7	0.9	0.0	1.4
Total domestic demand	22 112	−1.4	−4.3	1.5	3.4	−0.2
Exports	3 763	1.4	10.1	8.2	2.0	0.4
Imports	3 930	−5.5	−0.4	2.3	8.8	−5.8
Foreign balance[4]	−167	2.0	2.1	1.2	−1.8	1.8
Statistical discrepancy[4]	110	−1.4	0.7	−0.8	1.9	−2.0
Gross social product	22 055	−1.0	2.0	0.5	3.5	−0.5
Agriculture and forestry	2 899	−0.7	2.1	−6.6	10.1	−6.9
Other activities	18 754	−0.9	2.0	1.6	2.5	0.4
Industry	8 699	1.3	5.6	2.7	3.9	0.7
Construction	1 589	−13.2	−4.2	−1.5	−1.4	−4.0
Services	8 466	−0.8	−0.9	0.8	1.7	0.8

1. Yugoslav definitions and concepts.
2. Official estimates
3. "General and collective consumption" according to Yugoslav definitions.
4. Percentage change contribution to the growth of the social product.

Sources: *Statistical Yearbook of Yugoslavia, 1987*, *Saopstenje*, Federal Statistical Office, and data submitted by the Federal Planning Office.

steep upward inflation trends meant increasingly negative real interest rates during the lifetime of the loan. In order to eliminate this substantial subsidy element, from 1987 onwards the interest rate on a housing loan is no longer fixed for good but adjusted regularly in line with other credit rates. This change led to a significant decline of real demand for housing loans and housing investment. Despite the continuous real fall since 1980 (with the exception of 1986), total fixed investment accounted for 21 per cent of GSP (20 per cent of GDP) in 1987, broadly the average ratio for OECD Europe.

The decline of real domestic demand was largely offset by a positive contribution to growth from the real foreign balance, almost completely due to a marked compression of imports. Indeed, the volume of exports increased only marginally (see below), the worst outturn since 1982. The small decline in GSP is attributable to a steep fall in agricultural output, resulting from the drought in the summer months which destroyed around one-third of corn production. However, even allowing for the bad weather effects, the underlying expansion of agricultural output was relatively weak (1½ per cent). With falling investment, construction activity also declined markedly. Services and industrial production advanced marginally. Manufacturing was affected not only by falling demand but reportedly also by shortages of imported raw and intermediate materials, a recurrent phenomenon in Yugoslavia (see Part III). Most industrial branches recorded negative growth rates. But more traditional ones such as food, tobacco and clothing, as well as transport equipment showed some gains. The latter was strongly influenced by a bunching of ship deliveries.

Despite steady contraction of the agricultural labour force and meagre output growth in other sectors, total employment continued to grow in 1987 at broadly the same rate as during the first half of the 1980s (Table 7). As in the previous few years, private sector non-agricultural employment expanded considerably faster than that of the socialised sector. Thus, despite the former's small share in total employment

Table 7. **Employment**

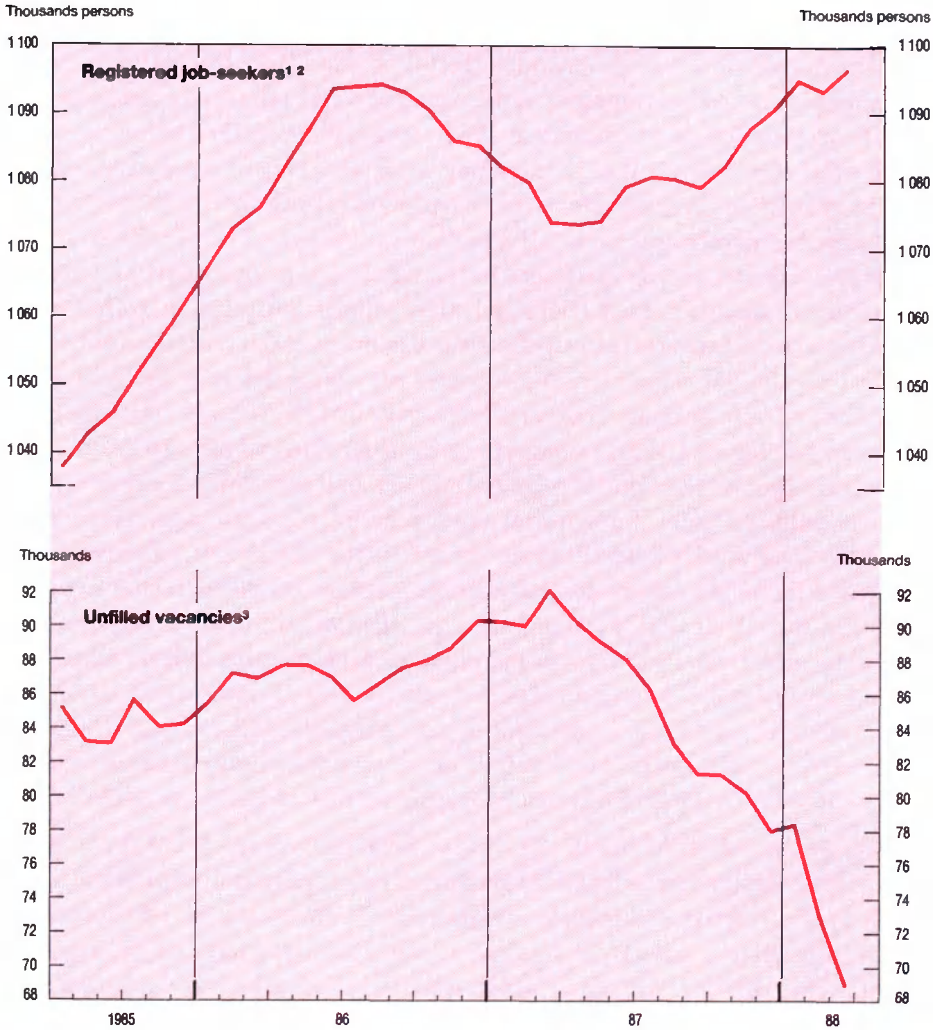
	1986 Thousand	1984	1985	1986	1987	1986 December	1987 June	1987 December	1988 March
		Percentage change from previous year							
Population of working age	15 129	0.7	0.7	0.9	0.7				
Domestic labour force[1]	10 003	1.3	1.3	1.3	1.3				
Domestic employment	9 445	1.1	1.5	1.8	1.1				
Agriculture	2 528	–2.1	–2.4	–2.1	–2.3				
Non-agriculture	6 917	2.4	3.1	3.3	2.3				
of which:									
Socialised sector	6 327	2.0	2.5	2.9	2.1	2.5	1.9	1.2	0.7
Private sector	590	7.5	10.0	7.3	5.1				
Self-employed	440	8.8	11.4	6.8	3.9				
Paid employees	150	4.0	5.3	9.0	8.7				
Employment, socialised sector	6 566	2.1	2.5	2.9	2.1	2.5	1.9	1.2	0.7
of which: Industry	2 625	3.0	3.4	3.8	3.1	3.4	2.9	2.1	1.1
		Thousand							
Registered job seekers[2]		975	1 040	1 087	1 081	1 085	1 050	1 087	1 131
First time job seekers		685	738	775	775	771	760	771	779
Vacancies		78	84	88	84	73	98	56	82
Memorandum item:									
Workers temporarily employed abroad		780	710	768	695				

1. Economically active population minus workers temporarily employed abroad.
2. Including those at work but looking for another job (see text).
Sources: Indeks, Federal Statistical Office and data submitted by the Federal Planning office.

(6½ per cent), it contributed one-fifth to the growth of total non-agricultural employment. Employment in the socialised sector grew by about 2 per cent, reflecting a steep rise through 1986 and up to the early months of 1987, and a rather flat trend during the rest of the year. For the third consecutive year very high rates of employment growth were recorded in industry, financial services, and social welfare and health. Rising employment combined with broadly stagnant GSP resulted in a significant decline in labour productivity in both total non-agricultural activities and industry. In the socialised sector the fall (1.8 per cent) was the biggest since the recession year 1983.

The longer-term upward trend in registered unemployment was reversed after mid-1986 for a period of thirteen months, picking up again in the fourth quarter of 1987. This profile reflected the lagged response to the relatively strong upturn of activity in 1986 and to the subsequent phase of financial stringency and weakish output trends. This turnaround in the labour market situation is also reflected by the reversal in the first quarter of 1987 of the previous rise in unfilled vacancies (Diagram 4). On average, the number of registered job seekers was slightly below the 1986 level, remaining, however, above the 1 million mark. Excluding some double counting (mainly students and those already employed – including private farmers – but seeking another job in the socialised sector), actual unemployment was around 630 thousand in 1987 or 6½ per cent of the total labour force[13]. The number of first-time job seekers registered as unemployed fell for the first time in 1987 after continuous growth over the past twenty-five years. This decline probably reflects mainly the falling number of persons reaching working age as well as general levelling of participation rates, which, averaging 66 per cent, are among the highest in the OECD area. But it also seems that the number of trainees and apprentices rose. Contrary to previous years,when all categories of labour experienced some rise in unemployment, the situation was more diversified in 1987: unemployment of highly educated and skilled workers grew, whereas joblessness of unskilled workers or workers with secondary education only, actually fell. As neither the supply of qualified labour appears to have increased particularly fast nor the pattern of labour demand to have shown any marked change, the compositional change in unemployment probably reflects growing mismatches between regional or specific occupational categories of supply and demand for labour.

Diagram 4. **JOB-SEEKERS AND UNFILLED VACANCIES**



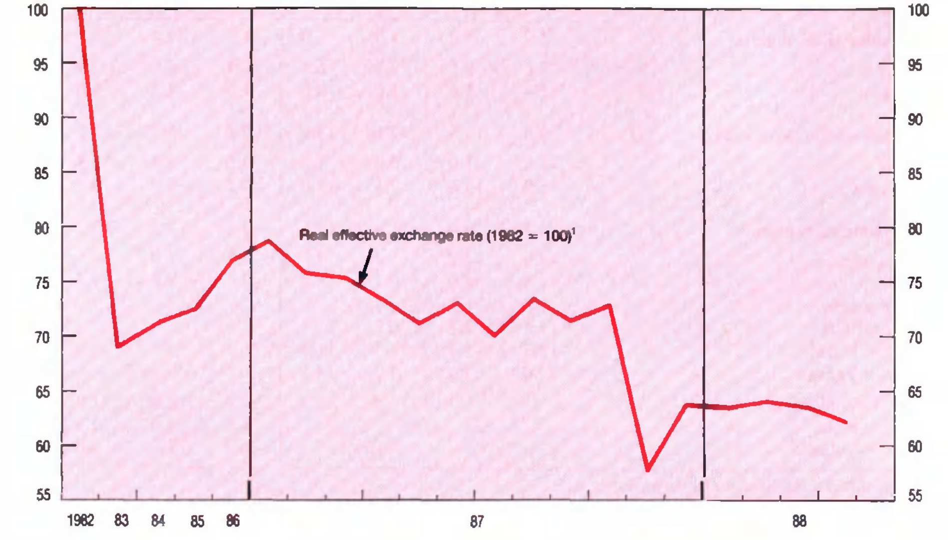
1. See text.
2. 3-month moving average.
3. 5-month moving average.
Source: OECD, *Main Economic Indicators.*

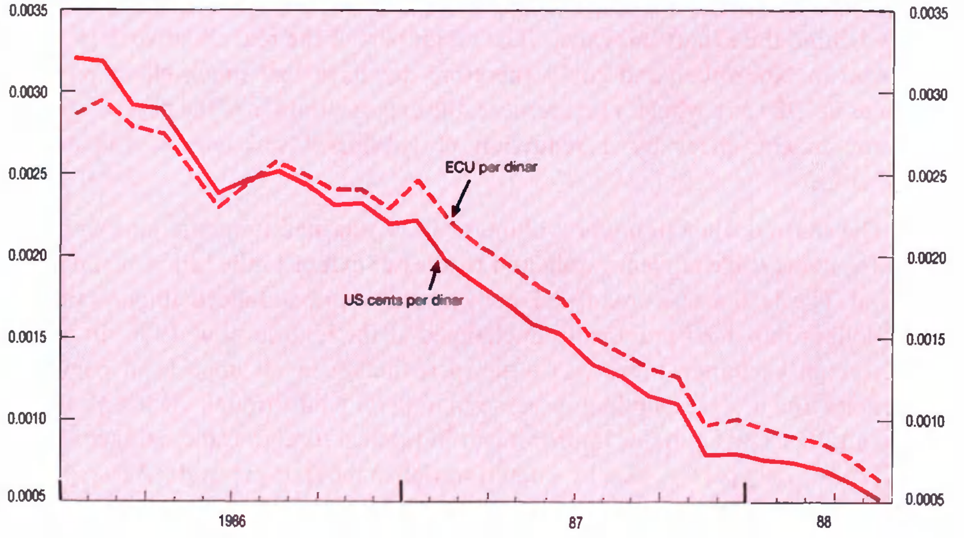
The balance of payments

Balance-of-payments developments in 1987 were affected by various factors, including strong speculative waves. High and accelerating inflation, the risk of a sizeable real depreciation of the dinar, and significant changes in cross-exchange rates of foreign currencies provided fertile ground for speculation. Growing exchange-rate unrest was manifest in the sizeable swing of the "errors and omissions" item, from an inflow of $1½ billion in 1986 to an outflow of $3/4 billion in 1987, of which only part may be due to changing leads and lags in payments related to merchandise trade. In this context, the sharp increase in the current account surplus in convertible currencies from $173 million in 1986 to $1 037 million in 1987 probably overstates the improvement in the balance of payments. With the aim of counteracting speculative behaviour and stimulating exports, the authorities started to devalue the dinar in real terms as from the beginning of the year. By April, the real effective devaluation amounted to just over 5 per cent and a little more six months later. The apparent response of exports was fairly quick. By contrast, up to the middle of November the demand for imports remained strong in the expectation of an imminent large devaluation. The general unrest and uncertainties are mirrored in sizeable outflows from foreign-exchange deposits of households (recorded as emigrants' and workers' remittances abroad in the balance of payments). They attained $3.3 billion, or twice the average outflow of the previous five years. Following the 20 per cent devaluation of the dinar on 16th November speculation abated, capital flight ceased and some inflow of capital seems to have taken place, including a reversal of leads and lags. In total, the real effective depreciation of the dinar amounted to almost 20 per cent in the course of 1987, compared with some 27 per cent in 1983, which was the first major real effective devaluation since the second oil shock in 1979 and the only one before that of last November[14].

Following a small decline in 1986, export volumes were stable in 1987 (Table 8). This was exclusively due to depressed shipments to Comecon countries, notably to the USSR to which export volumes shrank by one-fifth. The poor export performance to the Eastern Bloc countries is largely attributable to a cutback in exports to re-equilibrate clearing accounts[15] which were in considerable surplus at the end of 1986 mainly due to the fall in oil prices. Exports to developing countries turned up strongly, suggesting gains of market shares. Export growth to the OECD area exhibited even greater buoyancy (14 per cent in volume) leading to considerable gains of market shares, making good part of the losses incurred in the two previous years. Exports to all OECD countries expanded, with particularly sharp increases to Yugoslavia's two neighbouring countries – Italy and Austria – and to the United

Diagram 5. **EXCHANGE RATES**





1. Calculated on the basis of industrial producer price indices.

Sources: Data submitted by the national Bank of Yugoslavia and OECD Secretariat.

Table 8. **Foreign trade**

Percentage change from previous year

	1984	1985	1986	1987	1984	1985	1986	1987
	Exports f.o.b.				Imports f.o.b.			
Total value (U.S. dollars)	2.9	4.3	4.3	6.0	–1.5	2.4	7.1	–0.8
Price	–7.6	–3.1	7.1	6.0	0.1	–0.1	0.5	6.7
Volume	11.4	7.6	–2.6	0.0	–1.6	2.5	6.6	–7.0
Non-convertible currencies	0.6	12.5	–7.1	–15.9	3.6	–6.7	–15.1	1.3
Price	–5.0	–1.0	0.0	1.3	3.0	1.9	–15.8	–2.6
Volume	5.9	13.6	–7.1	–17.0	0.6	–8.4	0.8	4.0
Convertible currencies	4.3	0.4	11.6	17.5	–4.1	7.5	17.7	–1.5
Price change	–9.0	–4.2	11.4	7.9	–1.5	–1.0	7.6	10.3
Volume change	14.6	4.0	0.2	8.9	–2.6	8.6	9.4	–10.7
of which:								
OECD:	11.4	2.1	20.7	27.1				
Price	–12.3	–5.1	18.3	11.4				
Volume	27.0	7.6	2.0	14.1				
Excluding oil:					–4.3	6.6	21.9	0.4
Price					2.6	–1.0	15.1	11.9
Volume					–6.7	7.7	5.9	–10.3

Source: Federal Secretariat of Foreign Trade.

States. The contraction of domestic demand seems to have been the most important factor behind the export buoyancy. The major part of the real effective depreciation occurred in November and could therefore not have had much effect on export volumes in 1987 as a whole. Furthermore, the export stimulus of the depreciation was to some extent offset by a reduction of subsidised selective credits and tax drawbacks.

The sharp decline in import volumes can be ascribed to restrictions on imports from the convertible currency area and to a lesser extent to the fall in real domestic demand. The decline was broadly offset by increased prices. Indeed, imports valued in U.S. dollars remained practically unchanged at the high level of 1986. In order to save foreign exchange there was a sharp reduction in oil imports in convertible currencies and a corresponding increase in imports paid through clearing accounts. All in all, there was a major improvement in the real foreign trade balance with the OECD area, only partly offset by a deterioration in the terms of trade. As a result, the trade deficit in convertible currencies shrunk to $1 billion, the smallest deficit of the last fifteen years[16].

In contrast to trade developments, there was a marked deterioration in net invisibles earnings. This largely reflected the marked decline in net emigrant

Table 9. **Balance of payments in convertible currencies**

Million dollars

	1983	1984	1985	1986	1987	January - March 1987	January - March 1988
Trade balance	–1 798	–1 171	–1 771	–2 562	–1 068	–322	161
Exports, fob	6 271	6 588	6 496	7 246	8 521	1 599	2 211
Imports, cif	–8 069	–7 759	–8 267	–9 808	–9 589	–1 921	–2 050
Invisible balance	2 097	2 036	2 115	2 735	2 105	223	265
Receipts	6 562	6 726	6 646	8 090	8 500	1 666	1 836
Workers' and emigrants remittances	3 404	3 456	3 285	3 935	4 292	990	1 130
Travel	879	1 034	1 010	1 282	1 606	115	144
Transportation	1 259	1 380	1 550	1 702	1 730	375	400
Other	1 020	856	801	1 171	872	186	162
Expenditure	–4 465	–4 690	–4 531	–5 355	–6 395	–1 443	1 571
Workers' and emigrants remittances	–1 733	–1 699	–1 650	–2 315	–3 303	–670	–780
Transportation	–637	–700	–715	–745	–855	–200	–222
Interest	–1 662	–1 804	–1 828	–1 870	–1 790	–450	–450
Other	–433	487	–338	–425	–447	–123	–119
Current account	299	865	344	173	1 037	–99	426
Long-term capital	1 369	9	–158	–1 622	–1 324	–382	–479
Loans received, net	1 526	101	–63	–1 392	–1 122	–402	–344
Drawings[1]	4 245	3 131	3 183	2 792	2 837	595	498
Repayments	–2 719	–3 030	–3 246	–4 184	–3 959	–997	–842
Loans extended, net	–157	–92	–95	–230	–202	20[2]	–135[2]
Short-term capital	–670	–96	–36	350	–65	151	121
Errors and omissions	–1 108	–242	58	1 565	–722	–250	–262
Change in external reserves (– = decrease)	–110	536	208	466	–1 074	–580	–194
Memorandum item:							
Refinancings	–	–	–	1 650	1 747	310	300

Note: Figures for 1983 and 1984 were calculated at constant cross-exchange rates and are therefore not strictly comparable with latest data which were calculated at current exchange rates.

1. Including refinancing.
2. Including advance payments for construction abroad.

Source: National Bank of Yugoslavia.

remittances from a broadly stable level of some $1¾ billion in the previous four years to about $1 billion in 1987. As mentioned above, speculative factors and uncertainty largely explain this decline. In addition, part of the outflow from foreign exchange deposits served to purchase products abroad which were either in short supply in the Yugoslav market or considerably cheaper abroad. Recorded receipts from tourism, the other important invisible item, continued to increase appreciably, although part of foreign tourism earnings seem to have leaked into the grey foreign exchange market. The continued buoyancy in dollar terms reflected increases in the volume of tourist trade as well as the appreciation of European currencies (in which most tourist transactions take place) *vis-à-vis* the dollar. As in previous years, interest payments abroad remained practically stable at their 1984 level, implying a decline relative to total current receipts in convertible currencies by some 2 percentage points to 11 per cent.

When adding the huge deficit on "errors and omissions" to the current account surplus in convertible currencies, the balance continued to remain positive in 1987, but not sufficient to make any major contribution to debt repayments (Table 9). In 1987 amortisation of medium and long-term debt amounted to \$4.0 billion. New loans and refinancing arrangements covered some \$2.8 billion (including BIRD and other international organisations). In addition, short-term debt to foreign banks declined and outstanding long-term credit increased. In order to cover these disbursements, official foreign exchange reserves were reduced by \$1.1 billion, the biggest reduction since 1979. By the end of 1987, official reserves had dropped to \$3/4 billion and total external reserves (including foreign assets of commercial banks) to \$1.8 billion, barely above the low level of 1982. At the end of 1987, total convertible currency net debt amounted to \$17 944 million, 30 per cent of GDP compared with 36 per cent on average over the period 1982-86. In relation to current receipts in convertible currencies, the decline of the net external debt was equally important from 125 per cent in 1982-86 to 105 per cent in 1987.

Table 10. **External debt in convertible currencies**[1]

Million dollars, end of period

	1980	1981	1982	1983	1984	1985	1986	1987
Gross debt[2]	17 165	18 322	18 494	18 814	18 665	18 255	19 026	20 242
Minus: Foreign lending	1 432	1 475	1 593	1 738	1 791	1 791	2 064	2 298
Net debt[2]	15 733	16 847	16 901	17 076	16 874	16 464	16 962	17 944
Medium- and long-term	15 115	17 000	16 677	17 667	17 614	17 240	17 661	18 942
of which:								
IMF	918	1 417	1 817	2 191	2 075	1 888	2 086	1 837
IBRD	1 359	1 483	1 682	1 722	1 951	1 979	1 917	1 880
Other international financial institutions	180	202	255	387	410	502	690	959
Interest payments	1 245	2 066	2 005	1 662	1 804	1 823	1 870	1 790
Amortization[3]	1 888	1 947	1 897	2 719	3 109	3 245	4 184	3 959
Debt servicing	3 133	4 013	3 902	4 381	4 913	5 068	6 054	5 749
Memorandum item:								
Debt servicing (per cent of total current account receipts)	21.6	23.7	26.7	34.2	36.8	38.6	39.5	33.8

1. Up to 1986 calculated at administratively fixed exchange rates; from 1986 inclusive at current exchange rates.
2. Excluding SDR allocations.
3. From 1983 including refinancing.

Source: National Bank of Yugoslavia.

II. Stabilization programmes and structural reforms

Given Yugoslavia's state of development, a high priority must necessarily be attached to raising the living standard of the Yugoslav people closer in line with that of more advanced industrial nations. In sharp contrast to the 1960s and 1970s, this objective has not been achieved in the 1980s. On the contrary, as can be seen from Table 11, the meagre real increase in the social product has barely exceeded the growth of population, and taking account of cumulative terms-of-trade losses and the negative factor income balance with abroad, real disposable national income per head

Table 11. **Comparative performance**

Annual percentage change

	1980/1971		1986/1980		1987[1]	
	OECD	Yugoslavia	OECD	Yugoslavia	OECD	Yugoslavia
Gross domestic product[2]	3.1	5.5	2.5	1.1	2.7	–0.5
National disposable income[3] per capita	1.8	3.5	1.9	–1.0	2.0	–1.3
Industrial production	3.1	7.1	1.9	2.9	3.0	0.7
Fixed investment (per cent of GDP)[4]	22.4	35.2	20.8	23.9		19.9
Incremental capital/output ratio[5]	7.8	6.0	9.2	18.9		
Non-agricultural productivity	1.7	1.7	1.4	–1.5	1.4	–1.9
Non-agricultural employment	1.4	4.3	0.7	2.4	1.6	2.3
Consumer prices	9.4	19.5	5.9	53.6	3.2	120.3
Average earnings in industry[6]						
Nominal	11.4	19.8	7.3	50.8		104.8
Real	1.8	0.3	1.3	–1.8		–6.7

1. Preliminary estimates.
2. Gross social product for Yugoslavia.
3. Net national income adjusted for terms-of-trade effects.
4. Per cent at current prices.
5. The ratio of gross fixed investment to the increase of GDP at constant prices.
6. Hourly earnings in manufacturing for OECD area, and monthly earnings in mining and manufacturing for Yugoslavia.

Sources: OECD, *National Accounts, 1960-1986*, *Main Economic Indicators*; Federal Statistical Office, *Statistical Yearbook of Yugoslavia, 1987*, Indeks No.3, 1988.

of population experienced a significant fall over the eight years to 1987; and with employment continuing to increase at a relatively high rate, average labour productivity in 1987 was almost 10 per cent lower than in 1980.

This unsatisfactory performance in comparison with Yugoslavia's potential and OECD countries can be related to two major failures of policies: first, to remove two mutually-reinforcing and more or less permanently-binding constraints to faster domestic demand growth – the country's fragile balance-of-payments position and formidable inflation-proneness – and secondly, to re-establish stronger potential output growth by raising capital and labour efficiency. The formulation and implementation of policies has been rendered difficult by a large number of factors, including the predominance of conflicting regional and local aspirations and interests, the fragmentation of Yugoslav markets, related impediments to the mobility of capital and labour, and perhaps most importantly, the absence of adequate market mechanisms of rewards and penalties[17]. The swing from large current external deficits in the late 1970s to surpluses of varying size since 1983 has largely been achieved through severe restrictions of domestic demand and administrative controls of imports, i.e. measures which tend to reinforce distortions and rigidities[18].

On the individual enterprise level, the failure of the wage structure to take sufficient account of differences in levels of education, training and job responsibility may have discouraged initiative and innovation in production processes as well as in research, organisation and marketing[19]. Apart from the lack of capital mobility, another important handicap for Yugoslav firms to improving labour productivity is associated with their "social role" which makes lay-offs and redundancies extremely difficult if not impossible in many cases. Thus, even loss-making enterprises are obliged to recruit young persons and apprentices, and social and political pressure is often reflected in employment compacts at the level of Republics and Provinces, committing individual enterprises to increasing employment by a certain percentage each year regardless of their economic situation. Finally, accelerating inflation has probably contributed to subdued labour productivity as entrepreneurial efforts had to be increasingly focused on protecting the real value of both enterprise income and financial assets rather than on how to make more efficient use of production factors. The higher the rate of general inflation, the smaller the relative importance of productivity growth as a means of raising profit margins or the rate of "capital accumulation".

At its present underlying rate, inflation can no longer be considered exclusively as a symptom of malfunctioning markets or structural imbalances. Inflation has assumed a momentum of its own and has aggravated the systemic weaknesses besetting the Yugoslav economy. The acceleration of inflation to an annual rate of around 250 per cent in the third quarter of 1987 conjured up the danger of uncontrollable hyper-inflation, making the recourse to administrative measures virtually unavoidable. This should not, however, be interpreted as implying that market-oriented instruments are impotent, but rather that not enough use has been made of them. The authorities have become increasingly aware of this as well as of the need to undertake more fundamental reforms along the lines discussed in previous OECD Surveys. A first package of measures and proposed reforms are part of the "Programme of Measures and Activities for Reducing Inflation and the Stabilization of the Economy" of 14th November 1987. Part of the proposed measures have already been introduced, others are still under debate.

A second and more fundamental package of reforms and measures and which is related to an International Monetary Fund stand-by credit arrangement was introduced in May 1988. These reforms represent a clear break with the tradition of administrative interferences as they expand the role of market forces, create a more competitive environment and promote the integration of Yugoslavia in the world economy. The three principal facets of the structural reform are the gradual liberalisation of prices and imports and the abolition of the foreign exchange allocation system. The setting-up of a unified foreign exchange market represents an important step towards full convertibility of the dinar for current transactions. Parallel to this, the authorities have fixed three nominal "anchors", – nominal growth targets for average pay, public expenditure and monetary aggregates in 1988 – and reinforced related macro- and micro-instruments for the achievement of these targets. The nominal restrictions and related measures took effect on 16th May, 1988. The structural reforms, which were partly linked to securing adequate external financial support, took effect on 30th May 1988 and were accompanied by a 23.9 per cent devaluation of the dinar. (Details of the new reforms and measures will be reviewed in the relevant sections of Parts II, III and IV).

Recent measures and reforms

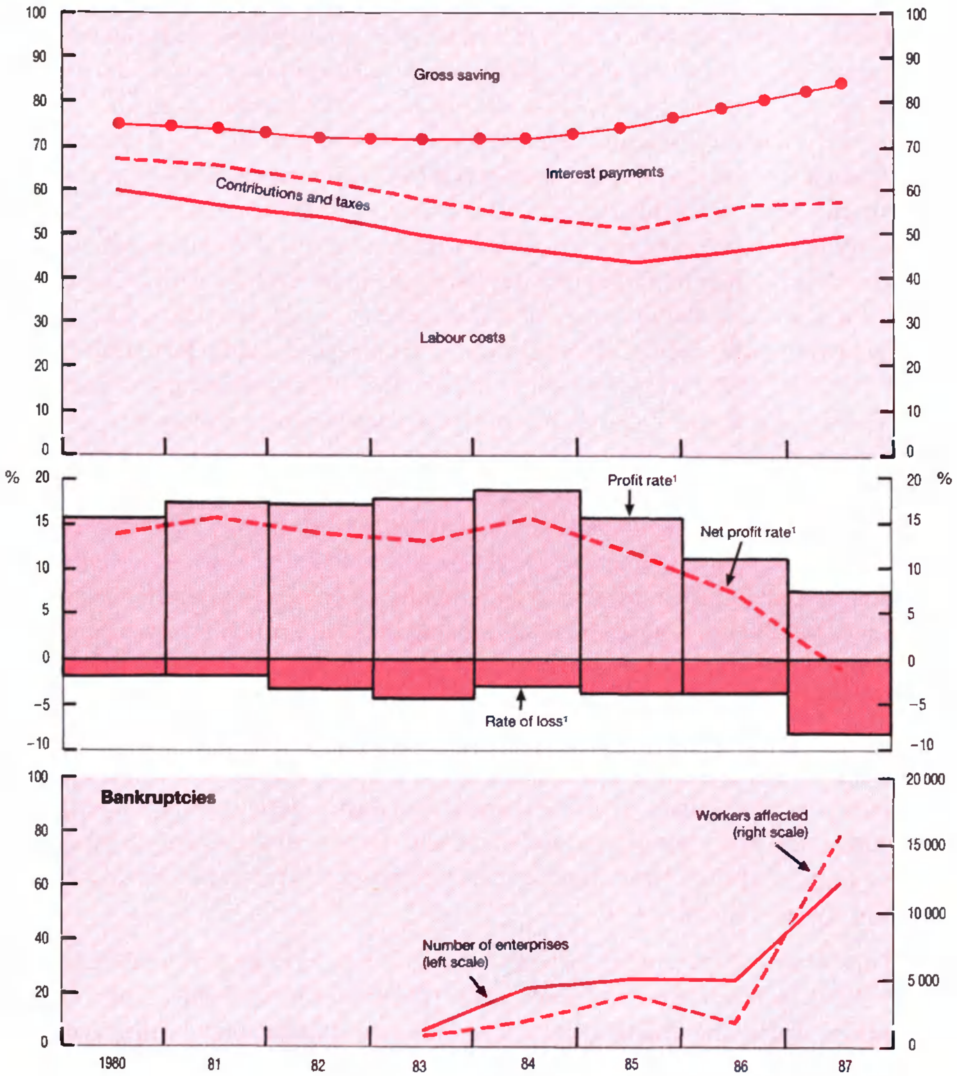
Financial discipline of enterprises

Inherent disincentives to financial discipline of enterprises were identified in the 1987 *OECD Survey of Yugoslavia* as one of the principal reasons behind unsatisfactory real developments and accelerating inflation. Lax financial behaviour of enterprises can also help to explain the build-up of huge external debt and the fragile financial situation of the enterprise sector as a whole as well as of the banking system. Debt-to-own-capital ratios are relatively high by international standards, having increased significantly between 1980 and 1986, and self-financing ratios are low and declining. Efforts to maintain the standard of living of workers (wages and collective consumption) in the face of declining labour productivity have also contributed to the surge of inter-enterprise credit and cash-flow difficulties.

The authorities have taken several measures during the last couple of years aimed at tackling various aspects of financial discipline and financial consolidation in the enterprise sector. A new accounting system was introduced on 1st January 1987. Based on current market values, the capital stock has to be revalued every quarter by using the industrial producer price index while every twelve months a more sophisticated method is applied to assessing the replacement costs of individual items[20]. In addition, the legal minimum depreciation rates have been raised somewhat since last year. The new system should contribute to raising the gross savings rate of enterprises, providing no guarantee, however, that the additional funds thus retained will not be used, as in the recent past, to finance inventory formation rather than fixed investment or the build-up of financial reserves. Excessive stockbuilding, while absorbing real resources and keeping inflation higher than otherwise, has been partly responsible for the sharp increase in interest payments by enterprises. The interest income share in total enterprise value-added rose from 7.4 per cent in the early 1980s to 25-30 per cent by 1987. A more determined real-positive-interest-rate policy would help in various ways to curb incentives to excessive and speculative stockbuilding without necessarily raising the net interest burden for the enterprise sector as a whole.

With the aim of preventing investments in uneconomical projects and thus curbing the cost of debt-servicing in the future, the authorities have been trying over the past few years to introduce objective criteria for the evaluation of investment projects. For certain big investment projects in public utilities, infrastructure, transport and communication, it is planned that evaluations will be made on the basis of economic or social rates of return with the help of international organisations. However, what is called for in addition is adequate co-ordination among Republics and Provinces; otherwise the application of these criteria may be held in abeyance and urgent development projects may be retarded. With regard to investment criteria for smaller projects there are also difficulties of a technical nature, linked to the absence of realistic market interest rates and existing discrepancies between world market and domestic prices, making the assessment of comparative costs/benefits of individual projects from the point of view of international specialisation and trade

Diagram 6. **PROFITS, LOSSES AND BANKRUPTCIES ALL ENTERPRISES**



1. Per cent of gross revenue (receipts minus costs of raw and intermediate materials).
Source: Data submitted by national authorities.

extremely difficult. Moreover, small regional banks may not have the necessary know-how for assisting enterprises in project evaluation. They may also be more subject to local pressure in their credit policy. All in all, the impact of these reforms may therefore be small unless complementary reforms are introduced to correct these institutional deficiencies.

The new laws, introduced at the end of 1986, and dealing with illiquid firms (those unable to service their debt) and loss-making enterprises, have already started producing very positive results. Illiquid and loss-making enterprises are required within thirty days to present a Rehabilitation Programme agreed with creditors, submitting it to the Social Accounting Service (SDK) for monitoring[21]. The new laws have shortened considerably the period for formulating Rehabilitation Programmes and their duration. At the same time, they have strengthened the powers of the SDK in controlling the rehabilitation of enterprises. An important element of a Rehabilitation Programme is the reduction of real wages by around one-fifth[22], with lay-offs envisaged only under special circumstances. This measure was further strengthened under the May 1988 measures which provided a 10 percentage point additional reduction in real wages. The Programme usually involves creditors and/or other enterprises with which the loss-making enterprise has trade relations or other ties. In accepting a Rehabilitation Programme, creditors have to write off 30 per cent of their claims and the remaining 70 per cent have to be covered mainly by the enterprises participating in the Rehabilitation. Direct bank credits to the loss-making enterprise and joint reserve funds (funds owned by a number of enterprises) cannot be used for covering losses. This measure aimed at stopping the socialisation of losses. Similarly, with the aim of reducing the incentive for local and Republican authorities to keep alive loss-making enterprises, it was decided that during the Rehabilitation period enterprises should not be liable to pay taxes. Moreover, the powers of the rehabilitators (enterprises supporting a Rehabilitation Programme and covering the losses) have been significantly strengthened, with regard both to decisions pertaining to commercial and production activities and to the distribution of income of loss-making enterprises. In addition, a real positive interest rate is applied to the funds provided by the rehabilitators.

Total losses of enterprises, especially in industry, have grown rapidly since the early 1980s, notably in 1985 and 1986 (Diagram 6). In 1986, 5 per cent of enterprises, occupying almost 6 per cent of the total labour force in the "economic sectors", suffered losses amounting to 470 billion dinar. During 1987, Rehabilitation Programmes were applied to 87 per cent of these enterprises, bankruptcy proceedings were started for 5 per cent, affecting about 0.3 per cent of total employment in the economic sectors. At the end of 1987, Rehabilitation Programmes were still in operation for a number of loss-making enterprises of 1986. The delays in rehabilitation procedures would seem to reflect normal running-in difficulties associated with the implementation of new policies and measures. However, even abstracting from these difficulties, the results of restructuring measures taken by individual enterprises may be regarded as insufficient from an overall national point of view as long as an efficient co-ordination of policies on an economy-wide scale does not exist. This point is clearly demonstrated by the existence of 365 independent railway basic organisations of associated labour operating in Yugoslavia[23].

Compared to previous years, when bankruptcies affected only a small number of workers (2 000 on average between 1982 and 1986), in 1987 some 16 000 workers were laid off on account of losses incurred in 1986. Moreover, since the beginning of 1987, the application of stricter criteria for defining losses, combined with enhanced controls by the SDK, has reduced the possibilities for enterprises to socialise losses either by concealing them or by drawing on public and other social funds. This, together with rapidly rising interest payments, led to a marked increase in the number of loss-making enterprises in the first nine months of 1987 (3 600 or 13 per cent of all enterprises). However, before closing their annual accounts many of them are expected to cover their losses by drawing on their reserves. Yet, provisional estimates show a big increase in uncovered losses. The rising number of Rehabilitation Programmes (involving substantial cuts in real wages) and of bankruptcies should start to influence workers' behaviour and reinforce financial discipline over the short to medium-run.

Improving monetary management

The 1987 *OECD Survey of Yugoslavia* devoted a special chapter to the difficulties of monetary management, among which the lack of instruments and markets, the limited power and independence of the National Bank of Yugoslavia, and conflicting political objectives were seen as the most important. The discriminatory nature (between sectors, creditors and debtors) of direct controls has aggravated considerably the economy-wide distortions, while at the same time weakening monetary and credit policies as an anti-inflationary weapon. Aimed at enhancing the efficiency of monetary management, an impressive number of market-oriented measures have been introduced in the last couple of years or are in preparation.

In early 1987 the authorities decided to reactivate compulsory reserve requirements as an instrument for controlling bank liquidity. In the course of the year, the compulsory reserve requirement ratio on deposits was raised by 10 percentage points, reaching 23 per cent by the end of the year. A new compulsory ratio was also introduced in 1987, applying to increases in bank credits. The ratios applied differed from quarter to quarter and according to categories of credit. For the year as a whole they amounted to 15 per cent on average for net new lending under credit ceiling and 25 per cent for new credits in excess of the ceilings. The compulsory reserves have to be held with the NBY, yielding a small interest rate of 3 per cent. The compulsory reserve requirement ratios siphoned-off 694 billion dinars in the course of 1987 (486 billion dinars through the ratio on deposits and 208 billion dinars through the ratio on credit expansion). Despite this the total bank liquidity ratio increased from 7.6 per cent at the end of 1986 to 11.1 per cent at the end of 1987, pointing to the limited impact of this new instrument in times of high inflation. Nonetheless, the liquidity ratio of many banks, especially in underdeveloped regions, actually fell to the legal minimum of 1 per cent (in relation to outstanding credits) preventing them from fulfilling all their credit commitments.

As from January 1988 the compulsory reserve ratio on deposits is calculated as a proportion of all dinar deposits and foreign currency deposits of enterprises, i.e. it has been extended to cover also household dinar deposits and long-term dinar deposits of enterprises which were previously excluded. On this new wider basis the compulsory reserve requirement ratio on deposits was fixed at 8.3 per cent at the end of 1987 and was planned to be gradually raised to 9.5 per cent by the end of 1988. The compulsory reserve ratio on credit expansion was maintained and in case of seasonal contractions of credit, reserves are frozen at their end-1987 level. In view of the fact that at the end of 1987 the liquidity ratio of many banks had reached the legal minimum, the efficiency of compulsory ratios as a means of controlling bank lending activity in 1988 has been enhanced, the more so as the NBY has the possibility of raising the compulsory ratios up to a maximum of 25 per cent. Under the May 1988 measures the compulsory reserve requirement on credit expansion was abolished and that on deposits was raised to 2 per cent on housing deposits and 13 per cent on all other deposits giving an average of 12 per cent on all deposits.

In November 1986, the authorities decided to reactivate obligatory bank investments in NBY bills as a regulatory instrument. The amounts to be invested were raised from 1.2 per cent of short-term deposits to 1.3 per cent and the rate of interest was set at 11 per cent. Within fourteen months these obligatory investments increased more than tenfold, reaching 70 billion dinars at the end of 1987. In February 1988, the interest rate was raised to 30 per cent, making these bills less onerous to banks. Alongside the obligatory NBY bills the authorities decided to issue marketable NBY bills in 1988, carrying an interest rate equal to the official discount rate, which in turn is planned to be slightly positive in real terms. The creation of this new instrument should encourage the intended development of a money market which can be closely monitored by the NBY.

Steps have been taken to improve and tighten the National Bank's control over the banking sector's total lending activity. Since the beginning of 1987 overdrafts have been included in the credit ceilings; likewise credits extended by banks on behalf of the Post Office and by National Banks of Republics and Provinces on account of third parties (mainly public sector agencies) are now put under the ceiling. Similarly, as from the middle of 1987, promissory notes sold by banks to the Money Market[24] have been included and it is envisaged to subject the Money Market to the same regulations as banks.

First moves were made in 1986 and 1987 towards reducing the role of selective credits which are not subject to quantitative controls and are heavily subsidised via special rediscounting facilities with the NBY. In 1985 and 1986 these credits accounted for 55 per cent and 35 per cent of the increase of credits extended by the NBY and commercial banks respectively. In 1987, the share was 50 per cent in the case of commercial banks. In order to gradually reduce the importance of selective crediting, the NBY in early 1988 lowered its rediscount quota for commercial banks' selective credits by 30 per cent[25], the ultimate objective being to abolish these types of credits over the medium term. The interest rate on National Bank selective credits, which had been fixed for 1988, continued to embody a heavy element of subsidisation, being 25 per cent below the official discount rate for export credits, 35 per cent below for agriculture and 45 per cent for cattle imports.

The May 1988 package included the bold step of abolishing interest rate subsidies on NBY selective credits for exports and for agriculture in the second and third quarters of 1988 respectively and not gradually over time, as was originally planned. The interest rate on these types of credit will be the same as the NBY official discount rate. Subsidisation will henceforth be borne by the budget, which will not only increase transparency but will also enable the authorities to better assess its cost. Furthermore, reserve money replaced credit ceilings on commercial banks as the primary instrument of monetary policy. The abolition of the interest rate subsidies on selective credits should enable the NBY to exercise more effective control over reserve money. The authorities also decided last May to restore net domestic assets (NDA) as the *main* target for monetary policy but will also continue to closely monitor M1, which is strongly influenced by reserve money creation. In targeting NDA, valuation effects on foreign currency-denominated deposits will be excluded, which is bound to complicate monetary management given the size of these deposits and the frequency of exchange rate changes.

With regard to interest rates, important changes have recently taken place. Until 1987, interest rates on dinar deposits differed considerably according to depositors. The interest rate on deposits of non-economic sectors, including public agencies and general government, was half that of household deposits. In 1987, this discriminatory treatment was ended with all depositors now receiving the same interest rate. This will increase the cost of funds but is consistent with moving towards positive real interest rates. Another measure contributing to this end is the increase from 30 per cent in 1986 to 46 per cent in early 1987 in interest rates charged by the NBY for dinar credits to banks as a counterpart to their foreign currency deposits with the NBY. These rates were increased to 92 per cent in the last quarter of 1987 and from the beginning of 1988 they have been set at the level of the discount rate.

The definition and pursuit of a real-interest-rate policy is a perennial problem for high-inflation countries, especially when there are big variations of monthly price changes as in the case of Yugoslavia. Part I briefly describes the policy followed since the beginning of 1987 and the failure to achieve positive real interest rates. In early 1988 the NBY changed the formula for calculating real rates, first by substituting the retail price index for the industrial producer price index so as to better capture overall inflation, secondly by adjusting interest rates every month instead of every three months, and thirdly by indexing the interest rate on the previous month's inflation (at an annual rate) instead of taking the annual rate of increase in prices during the previous six months. According to this formula, which was in operation until end-May, the discount rate of the NBY was fixed at 108 per cent in January 1988 and at 48 per cent in February[26]. The change in the formula, coming after six months of sharply accelerating inflation, meant that the strong and increasingly negative real interest rates during the second half of 1987 was not compensated, as would have been the case under the old formula. Accordingly, borrowers were able to preserve the sizeable subsidy element they enjoyed in 1987 and which was effectively borne by creditors (including banks), households and profitable enterprises.

Apart from the once-and-for-all effects associated with the change in the formula and increased uncertainty related to frequent changes, the calculation method avoided some of the problems of the old formula but had also some drawbacks. Annualised monthly rates of inflation lead to large oscillations of nominal interest rates, rendering more difficult financial planning by enterprises and households. Moreover, due to seasonality in prices and cash flow of different branches or enterprises the new method involved big changes in benefits and/or costs according to the seasonal profile of borrowing and lending by individuals and enterprises. The formula was designed to give a better guarantee to depositors and, therefore, to discourage a flight from the dinar in times of high and accelerating inflation. However, this would have only be the case if depositors had confidence that the system would continue after periods of suppressed inflation. Otherwise, when interest rates are perceived to be lower than the underlying rate of inflation, depositors may be induced to shift from liquid assets to tangible goods so as to maintain their wealth in real terms.

With the aim of correcting these deficiencies the May 1988 package provided for the principal to be indexed to retail prices. This measure, which took effect on 16th May, will apply to deposits of three months or more and on credit of one year or more. At the same time, the minimum (real) interest rate was set at 5 per cent for three months' deposits and higher rates for longer-time deposits. For sight and one-month deposits interest rates will be linked to the NBY discount rate which, in turn, will be fixed to be equal to the annualised rate of increase of retail prices in the previous month plus 5 to 6 percentage points. The new formulae for the first time guarantee the enforcement of a real positive interest rate policy throughout the whole spectrum of deposit and lending rates.

The treatment of foreign exchange deposits has undergone some changes in recent years. From mid-1986 to the end of 1987 the interest rate on these deposits was indexed to the Euro interest rate of the corresponding currency plus a 2 percentage point margin irrespective of maturity. With the hope of attracting more foreign savings from Yugoslavs abroad, the margin has been raised as from the beginning of the year to 4 percentage points and the authorities are planning to allow all persons (including residents in Yugoslavia) who sell foreign exchange for dinars to have the right of repurchase in the course of the year. These measures should stimulate the inflow of foreign exchange, though most of the impact will be once and for all. The essentially temporary relief of the foreign exchange constraint has to be assessed against lasting high costs for the economy and the corresponding aggravation of distortions[27].

The last OECD Survey of Yugoslavia[28] analysed the difficulties resulting from sizeable foreign exchange deposits, notably the constraints they impose on monetary and fiscal policies, and the negative influence they have in the fight against inflation and balance-of-payments consolidation efforts. These negative effects are augmented by the additional increase of already high interest rates on foreign exchange deposits. The extra margin of 2 percentage points applies to the outstanding foreign exchange deposits of about $12 billion, involving extra costs each year to banks, including the National Bank, of $1/4 billion which households may be able to draw in foreign exchange. The possibility for households to repurchase foreign exchange will oblige the NBY to maintain foreign exchange reserves at a higher level than otherwise would be necessary, especially in periods of speculation and exchange rate unrest as witnessed in 1987. These measures may also risk promoting the foreign exchange black market. Foreign exchange inflows that would normally be recorded as commercial or service receipts and be converted into dinars may now show up as household foreign exchange deposits, raising the foreign exchange liabilities of the banking sector by an equivalent amount.

In the May package, the authorities included a measure that should henceforth reduce the incentives for commercial banks to accept new foreign exchange deposits from households. The policy up to now was that commercial banks used to cede to the NBY the foreign exchange deposited with them (mainly by households). The former, therefore, used to pass the exchange rate risk to the NBY. From now on commercial banks will assume this risk which will make these deposits less attractive to banks, especially since the interest rates on these deposits are considerably higher than corresponding Euro-rates which makes their placement abroad more difficult.

Price liberalisation

Price liberalisation is an important element of the May 1988 reforms. Although in an inflationary situation and in a heavily protected market there are definite risks involved, these are expected to be contained by the parallel liberalisation of imports and the fixing of "nominal anchors" (see below). The authorities intend to adjust the pace of price liberalisation to that of imports and they also envisage in cases where supply conditions are strained to temporarily allow more imports in order to ease the pressure on prices. Initially, price liberalisation will be concentrated on products where there is sufficient domestic supply and where, because of the large number of producers' competition is likely to develop. Furthermore, price liberalisation is designed to equally affect all business activities and enterprises participating in the same chain of production. In 1988, price liberalisation will be carried into two stages:

i) On 30th May, 1988:
- the percentage of *free* industrial producer prices was raised from 42 per cent to 47 per cent;
- the percentage of industrial producer prices requiring *30 days prior notification* to buyers and to the FBP was raised from 12 per cent to 16 per cent;

- 37 per cent of industrial producer prices to remain under some form of *control* (see Annex I).

ii) From 16th November 1988 to 1st January 1989.

- additional 10 per cent of industrial producer prices to be liberalised.

Pending institutional and structural reforms

The Programme of Measures and Activities for Reducing Inflation and for the Stabilization of the Economy of 14th November 1987 outlines important institutional and structural reforms. Many of these projects require prior legislative changes and some of them even necessitate amendments to the Constitution, usually a long process in a Federal State. Consequently, some of the reforms cannot be expected to be introduced before some time in 1989. Moreover, many of these proposals are still in a preliminary stage or simply enumerate principles and broad orientations of future policies. And although the ultimate goal is to strengthen market mechanisms and competition, it is not always clear how some of the envisaged measures will contribute to the achievement of this goal. Accordingly, at this juncture only a brief review of the main proposals is possible.

Banking reforms and the financial system

The authorities have proposed a number of reforms in the banking area, which are expected to be introduced at the beginning of next year. The main objective of these reforms is to make banks more independent of big enterprises and of local political lobbies, thereby contributing to the upgrading of economic criteria in the allocation of financial resources. To this end the measures envisaged aim at:

- Enabling banks to operate and make transactions for their own benefit and not only for the account of their clients;
- Making the voting power of the founding members, who are in effect the owners of the banks, proportional to the capital they have subscribed and to the size of their time deposits, with a maximum of 10 to 15 per cent of the votes for each founding member. So far, founding members have had equal voting power;
- Making the Assembly of the bank the upper decision-making authorities and responsible for the management of the bank, assisted by specialised committees;

– Creating consultative bodies consisting of representatives of individual depositors.

Strengthening the position of bank management *vis-à-vis* powerful clients, while ensuring better control over individual bank operations, has been an important motivation of the new proposals. Indeed, one preoccupation of the authorities has been to oblige banks to reveal in their accounts non-performing and doubtful debts and to increase reserves correspondingly. However, as long as banks are small and essentially local or regional, it is more difficult to make them really independent of local pressures and lobbies. Bigger banks would also be in a better position to provide the wide range of services and expertise that modern banking business requires.

The authorities are considering setting up specialised credit institutions, which would not only be capable of providing expertise in specific fields but also the necessary funds for major infrastructural projects, agricultural development and urbanisation programmes. Concrete plans also exist to increase the independence of the NBY. A law passed in December 1987, while strengthening the direct links of the Bank with the Federal Assembly, enables the NBY to submit bills and policy proposals to the Federal Assembly, though the exact relations with the Federal government on the one hand, and the Federal Assembly on the other would still need to be defined. The new law appreciably increases the power of the Governor of the Bank, especially within the governing board, which consists of representatives of the National Banks of the six Republics and the two Provinces. In a number of matters, the Governor can take decisions without referring to the Board of Governors and in other cases he may veto decisions taken by the Board. A drastic reduction of commercial activities by the NBY is also planned, notably on the republican and provincial level.

Taxation and government expenditure

The Yugoslav tax system suffers from important drawbacks, both from the economic and social point of view. Personal income taxes are very small – 1.5 per cent of GSP compared with 12 per cent in total OECD – and tax schedules are not progressive. By contrast, the share of taxes on enterprise income is comparatively high (twice as high as the OECD average). The authorities are planning to increase taxes on personal incomes by broadening the tax base and by raising tax rates (including the introduction of progressive taxation). In particular, individuals in the private sector and farmers, who do not pay taxes or pay only insignificant amounts, are to be taxed. New taxes are planned to cover incomes from rents, real estate transactions and income from other activities, notably in the private sector, which has shown considerable expansion in recent years. Moreover, instead of taxing individual incomes separately, the Government intends to tax family income as a whole. However, before these changes can be introduced, the Government has to strengthen control mechanisms, the authority of tax collectors and to pass the necessary legislation. The Government is also studying the possibility of introducing VAT with different rates on luxury goods and on essentials. With a view to reducing the capacity to finance public sector expenditure at local and regional levels, the Federal government has also proposed the elimination of certain municipal taxes and the reduction of taxes levied by Republics and Provinces.

On the expenditure side, drastic cuts are planned so as to bring the share of public expenditure down from its present (1987) level of 33.5 per cent of GSP to 30 per cent by 1990. To this end, a compact is expected to be signed by Republic and Provincial governments around the middle of this year. With the aim of increasing the efficiency of the bureaucracy, it is intended to reduce the number of public sector employees at all levels of government and public agencies and to close certain institutions. However, vested interests and social pressure to preserve existing job opportunities may render the realisation of such plans difficult, all the more so since the Federal Government does not have direct control over the thousands of public agencies engaged in social activities, health, education, etc. in the various regions. Plans to cut public expenditure also include investment in buildings and in non-productive sectors. A particular matter of concern is the growing burden of pensions, which account for nearly one-third of total current public expenditure. As an important part of pensions consists of invalidity and disablement payments which have often been obtained abusively, the Government wishes to tighten criteria and controls on these transfers. Similarly, a thorough review of retirement pensions is envisaged so as to bring them into line with the financing capacity of the economy, notably by indexing them to real wage rates.

Housing policy

The housing problem is particularly acute in Yugoslavia[29]. Normally enterprises and public agencies provide their employees with apartments at an extremely low rent which the tenants can pass to their descendants after death. The new policy is to appreciably reduce social housing and stimulate private housebuilding, which should account for two-thirds of new apartments built in the next ten years or so. At the same time, rents will gradually be raised so as to attain a level reflecting the cost of construction and maintenance. Contributions paid by enterprises to housing funds should be correspondingly reduced; only a small amount should be retained for "solidarity housing" for those with relatively low incomes.

The reduction of contributions to the housing fund will permit an increase in wages which could compensate for the reduction in housing facilities provided by enterprises. The new housing plan also envisages the sale of existing apartments to their tenants at a price near the market value which tenants could pay in instalments. The funds raised in this way will be partly used by enterprises to grant credit to their employees for house purchase. In order to facilitate private investment in housing, it is planned to exclude credit for housing from credit ceilings and to introduce generous fiscal benefits[30]. A special savings scheme for house purchase is also being studied, and Yugoslavs working abroad will be given the opportunity to buy dwellings at a fixed price in foreign currency.

The new housing policy, which involves significant changes in the legal system concerning tenants' rights and regulations governing property transactions as well as changes in the financing mechanisms, is expected to have far-reaching effects. The discriminatory treatment between those occupying a social house and those paying an exorbitantly high rent in the limited free market will tend to disappear. Considerably more important, however, will be the economic benefits. The growing awareness of the futility of waiting in a long queue to obtain a heavily-subsidised dwelling should force individuals to draw on their savings and complement them with credit to invest in housing. Given the relatively highly liquid nature of households' assets, the resources which may be mobilised in this way are likely to considerably exceed the funds allocated to housing construction under the present regime. Thus, not only should the housing shortage be satisfied more quickly, but also housing construction through its wide linkages should give a powerful impetus to growth. If appropriate incentives are given to induce households to use part of their foreign exchange deposits for investing in houses, a more balanced structure of households' net wealth could be obtained, and at the same time the difficult problems arising from these deposits will diminish. Last but not least, the decreasing importance of social housing will allow enterprises to devote more funds and time to production activities and related investments.

Capital mobility and joint ventures

The Government is also studying ways and means of encouraging capital mobility between enterprises across Republics and Provinces. The promotion of joint domestic ventures is envisaged, whereby enterprises can have a permanent stake in other firms without the risk of being expropriated or losing operational control. The indexation of capital invested in other enterprises is proposed so as to safeguard its real value. The authorities also plan to provide the appropriate legal framework for broadening the scope of collaboration in other areas. Simultaneously, priority will be given to the creation and expansion of small and medium-sized enterprises, notably in tourism. With regard to integration and competition, it is proposed to strengthen and extend the activities of the Federal Market Inspectorate and to achieve better co-ordination in transport and energy policies between Republics and Provinces. Proposals for attracting additional foreign enterprises and setting up joint ventures, in which the foreign partner will have considerably more benefits and guarantees than hitherto, are being debated. The Government also envisages the creation of free trade zones, where foreign companies would be able to establish themselves and benefit from tax and tariff exemptions.

III. Competitiveness and foreign trade

Foreign trade and development strategy

The strength of the export- and import-competing sector determines in large measure the overall performance of a national economy. The smaller the country, the stronger this link. Countries with internationally competitive industries are normally able to grow at least as fast as the rest of the world without running into balance-of-payments difficulties. In order to ease external constraints to faster growth, countries may try either to pursue a development strategy based on reducing their import-dependence or one based on gaining market shares abroad. The inward-looking first option relies on import substitution as a means of economising on foreign exchange while the alternative relies on export-led growth to earn the foreign exchange necessary for paying the import bill.

The Yugoslav development strategy has traditionally been based on the import-substitution model. Though possibly justifiable at early stages of a catching-up process, the associated excessive emphasis on comprehensive industrialisation at the expense of infrastructure investments, agriculture and services has turned out to produce an import-intensive profile of output. Behind high trade barriers internationally uncompetitive lines of production have been built up, providing a very wide range of products, notably final goods. As these goods have mainly been destined for the relatively small home market, Yugoslav industries have not been able to benefit as much as would have been desirable from economies of scale and from specialisation and the growing international division of labour. The situation has been made still worse by the geographical segmentation of the Yugoslav market, reflecting the tendency of Republics and Provinces to duplicate production already existing elsewhere. As a result of these factors and others discussed in Part II, the efficiency of both capital and labour is very low by international comparison, notably in relation to the quality of most products[31].

The development of an adequate export capacity has suffered from the import-substitution strategy in various ways. First, restricting imports through trade barriers or other administrative measures keeps the exchange rate above its market clearing rate, hence inhibiting export growth. Secondly, sheltering industries from foreign competition keeps wages and other costs of domestic origin higher than otherwise, again impairing competitiveness. Thirdly, protecting domestic producers from imports with a relatively low technology content tends to result in increased dependence on technologically advanced imported capital and intermediate goods, which in turn negatively affects the pattern of domestic production and value added. The foreign-exchange costs of imported inputs, including machinery and equipment, spare parts, royalties, etc. may in many cases be as high as, or sometimes even higher than, the import price of the final product. This means that measured at world market prices, the value added created in Yugoslavia in such lines of production could be fairly small or even negative.

Restricting imports has not only tied resources in low-efficiency sectors, but has also greatly contributed to the excessive inflation-proneness of the Yugoslav economy. Indeed, greater exposure to foreign competition would have contributed to lower inflation in two ways: directly via the easier access to low-price, high-quality foreign products acting as a price stabilization whip at home, and indirectly via the cost-reducing effects from higher overall productivity. An inflation-accommodating exchange-rate policy would of course tend to neutralise these positive effects, but viewed in a dynamic sense, i.e. after allowing for industrial restructuring, stabilisation and efficiency gains would still remain. Indeed, considering Yugoslavia's unexploited development potential and its low real wage costs[32], positive supply-side effects – in the form of higher overall productivity and an improved supply structure – would most likely far outweigh initial terms-of-trade losses which normally could be expected to result from a dismantling of import restrictions and related exchange-rate adjustments.

Despite severe sacrifices in living standards during most of the 1980s, the balance of payments has remained a binding constraint on policy making. As noted in Part I, the small external current-account surplus in convertible currencies recorded since 1983 has been more the result of administratively imposed restrictions on imports (import volumes declined by 32 per cent between 1980 and 1987) than of export buoyancy (25 per cent volume growth over the same period). It is also worth noting in this context that notwithstanding falling oil prices, Yugoslavia has since 1980 suffered terms-of-trade losses, contrasting sharply with significant improvements for the OECD area as a whole. Between 1979 and 1987 the cumulative loss in terms of 1987 GSP at 1972 prices amounted to as much as 1¼ per cent. In large measure, these losses are a reflection of an unfavourable domestic supply structure (see below) and a correspondingly weak competitive position abroad.

Foreign trade regime

Domestic production has been protected by a variety of instruments, including the complex foreign exchange allocation system (FEAS) which has been increasingly used in recent years. Tariffs are relatively low: the average effective rate at present amounts to 7 to 8 per cent with a maximum of 25 per cent for arms and ammunition and a low of some 1 per cent for minerals. Imports are classified into four categories(quoted shares refer to 1987):

- *Free imports* not subject to restrictions accounted for about 12.2 per cent of convertible currency imports. They consist mainly of medicines, medical equipment, books and some other essential materials;
- *Quotas* covered around 36.2 per cent of convertible currency imports and mainly apply to specific raw materials (e.g. coal, oil, metals) and capital equipment competing with domestic products;
- *Commodities requiring licences* amounted to 2.9 per cent of convertible currency imports. They include food items, such as coffee, sugar and edible oils, and some other commodities;
- *Conditionally free imports* accounted for 48.7 per cent of convertible currency imports. They include most raw and intermediate materials as well as capital goods not competing with Yugoslav ones.

Imports of the last category depend on the availability of foreign exchange. In recent years they have been rationed through the FEAS, a step necessitated by the acute scarcity of foreign exchange. Thus, though not originally conceived as an additional protection, the FEAS effectively serves to shield large sectors of domestic industry from foreign competition. The Federal Executive Council has the right to shift goods from one category to another and impose additional import restrictions (e.g. advance import deposits and special taxes).

Prior to the setting-up of a unified foreign exchange market in 1988 (see below), the administrative rationing of foreign exchange was done by eleven authorised regional banks on the basis of priorities established by the Federal Executive Council[33]. High priority in the allocation of foreign exchange was given to debt-servicing, contractual obligations with foreign firms in joint production ventures, import needs of net exporters and federal agencies. Consumer goods figured at the bottom of the list. With an increase in the proportion of foreign exchange earnings allocated to exporters, some improvements took place in 1987, but fundamental weaknesses of the system remained. Like quotas, the FEAS discriminated between branches and products, thus reinforcing economy-wide distortions. It also reduced supply responsiveness to changing patterns of world demand and hindered the setting-up of new firms. The right to foreign exchange for import needs was fixed in advance on the basis of quarterly export/import records. This, combined with recurrent import restrictions, encouraged precautionary stockpiling. Moreover, owing to insufficient market-induced inter-bank flows of foreign exchange, the FEAS reinforced the fragmentation of the economy, as in practice each Republic and Province tried to retain a maximum of its foreign exchange earnings within its own borders. This was reflected in the growing tendency to balance current external accounts on a regional basis.

On the export side heavily subsidised interest rates on selective export credits have remained the principal stimulus, though declining in importance. In 1986, selective credits for exports by the National Bank of Yugoslavia alone amounted to 400 billion dinars, which implies a subsidy of 10 to 15 per cent for manufacturing exports to the OECD area. Additional, but probably smaller subsidies were provided by commercial banks. Tax refunds on exports also include a sizeable element of subsidy. Furthermore, exports under compensation agreements, accounting for some 10 per cent of total exports in convertible currencies, are effectively subsidised by either favourable "accounting prices" or access to "profitable" imports. All in all, subsidies may have been equivalent to over one-fifth of the total value of manufacturing exports in the 1980s up to 1987 when there seems to have been a major drop[34].

Foreign trade structure

The relatively low degree of integration of Yugoslavia into the world economy is reflected in the small share of its external transactions in GSP. The share of exports (and imports) of goods and services has fluctuated around 22 per cent in the 1980s, which is at the bottom of the range for OECD Europe and even significantly lower than in big industrialised countries like Germany and the United Kingdom. Moreover, except for a short period after the first oil shock, the relative weight of merchandise trade has remained roughly the same since the early 1970s in contrast to marked increases generally elsewhere.

An important part of trade has traditionally been with developing countries and the Comecon area, predominantly on a clearing basis. To a large extent this pattern reflects the general orientation of Yugoslav policies but may also be an indication of difficulties in penetrating OECD markets, given deficiencies in quality, design,

Table 12. **Geographical distribution of foreign trade**[1]

Per cent of total

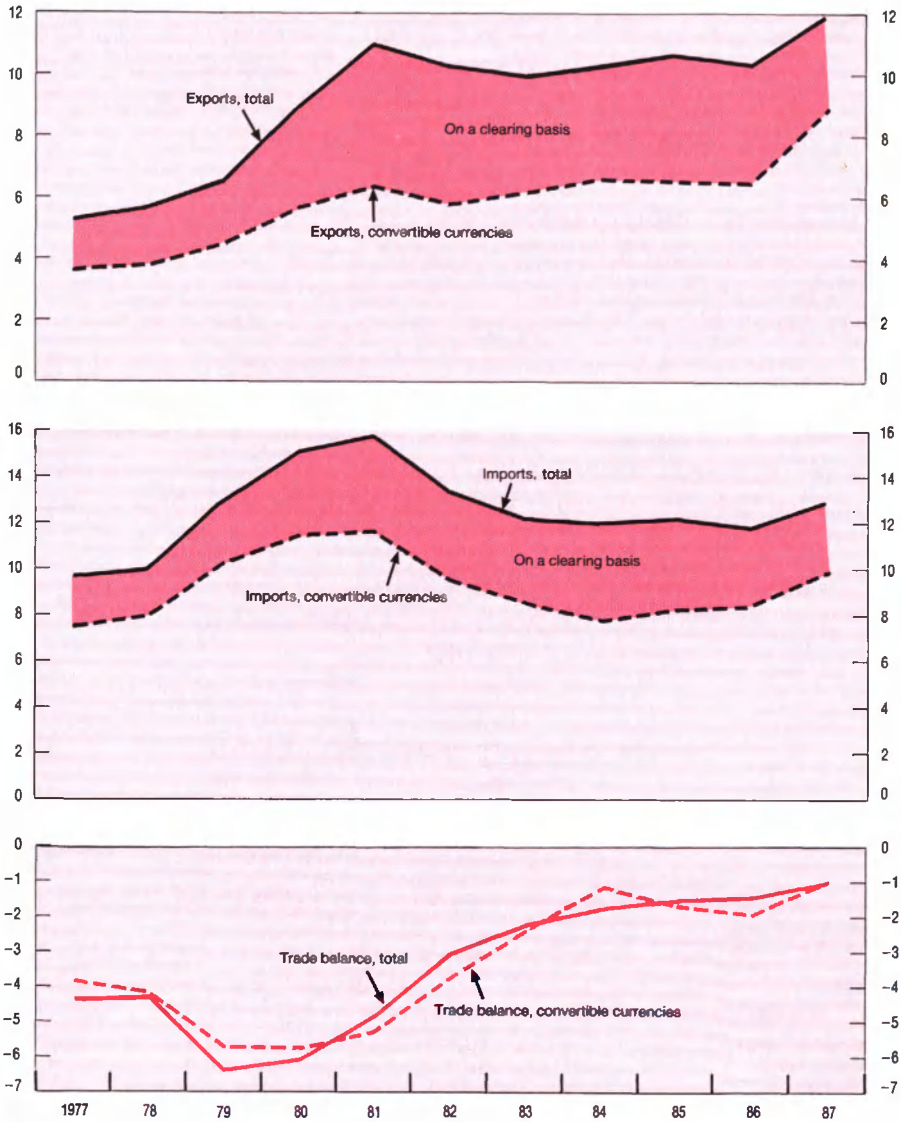
	Exports							Imports						
	1970	1975	1980	1982	1982	1985	1987	1970	1975	1980	1982	1982	1985	1987
OECD countries	56.1	35.6	37.1	27.9	26.0	35.0	48.7	68.9	60.7	52.6	51.0	48.9	46.9	55.7
EEC countries	41.2	24.0	26.6	20.6	18.4	24.6	33.9	42.6	35.2	34.3	30.9	31.7	31.4	38.8
of which:														
France	3.8	2.1	2.7	2.2	1.9	2.5	3.6	4.6	4.5	4.3	3.1	3.9	3.1	4.4
Germany	11.8	7.8	8.7	7.0	6.6	10.3	11.3	19.7	18.7	16.6	13.9	13.2	13.4	17.7
Greece	1.9	1.0	1.8	1.0	1.0	1.4	1.5	1.5	1.0	0.6	1.3	1.4	0.9	0.5
Italy	15.2	9.1	9.3	7.6	6.6	9.0	12.7	13.2	11.3	7.4	7.7	7.0	8.4	10.0
United Kingdom	5.8	1.5	1.0	0.9	0.9	1.7	2.3	6.2	3.1	2.6	3.4	3.5	2.0	2.5
Other OECD countries	14.9	11.6	10.6	7.4	7.6	10.4	14.8	20.5	18.1	17.4	16.6	17.2	15.5	16.9
of which:														
Austria	3.0	1.8	2.2	1.9	1.8	2.5	3.5	5.3	4.1	3.6	3.8	3.7	3.2	4.3
Switzerland	3.1	1.0	1.2	0.9	0.8	1.0	0.9	4.5	2.6	2.2	2.2	1.9	1.7	2.4
United States	5.4	6.5	4.4	3.0	3.1	4.4	6.2	5.6	5.4	6.7	6.3	6.6	6.4	5.5
Comecon countries	32.2	46.1	44.4	49.9	52.8	50.7	37.2	20.5	24.1	29.3	33.9	36.3	32.5	32.2
of which:														
USSR	14.4	24.9	27.7	33.4	34.6	32.0	21.0	6.7	10.5	17.9	20.5	21.5	16.2	16.7
Czechoslovakia	5.3	6.0	4.9	6.1	6.3	4.7	4.0	5.3	4.1	3.6	4.5	4.7	4.7	4.7
Developing countries	11.7	18.3	18.3	22.1	21.2	14.3	14.1	10.6	15.2	18.1	15.1	14.7	20.6	12.0
of which:														
Oil exporting	1.4	4.8	7.1	10.6	13.2	7.2	6.7	1.6	6.5	8.0	7.4	8.6	16.6	6.6
TOTAL (US$ billion)	(1.7)	(3.8)	(9.7)	(10.7)	(9.9)	(10.6)	(11.8)	(2.9)	(7.7)	(16.5)	(14.1)	(12.8)	(12.2)	(13.0)

1. There is a break in the series in 1982. Data for exports and imports in first four columns are calculated at "statistical exchange rates" and in the last three columns at "current exchange rates".

Sources: OECD, *Foreign Trade by Commodities*, 1988 and data submitted by national authorities.

Diagram 7. **THE PATTERN OF TRADE RECEIPTS AND PAYMENTS**

Billions of dollars



Source: Federal Statistical Office: *Indeks.*

technology and marketing. Until 1985, trade on a clearing basis accounted for about one-third of total trade, but fell to nearly one-fourth in the last two years. This decline is largely attributable to the fall in the oil price, as about one-half of oil and gas imports are on a clearing basis. Manufactures account for the largest part of exports on a clearing basis, especially machinery, transport equipment, metal products and footwear. The quality of these products is in general less adapted to OECD markets. On the import side, products with a low technology content like raw materials, crude oil and metals account for a relatively large share of purchases on a clearing basis.

From the late 1960s up to 1985 trade with the OECD area rose less than total trade. The export share declined from over 50 to 35 per cent and the import share from 64 to 47 per cent. This relative decline is partly explained by the growing oil bill and the related import boom in OPEC countries. In real terms, imports from the OECD area decreased between 1979 and 1986 as the authorities imposed restrictions to save foreign exchange. Since 1986, assisted by official export promotion efforts the downward trend of the OECD trade share was reversed, with appreciable volume increases in exports. As a result, in 1987 the export and import share with the OECD area climbed to 49 per cent and 56 per cent respectively, almost back to the levels of the early 1970s.

A salient feature of the commodity composition of foreign trade is the large percentage of finished manufactures in exports and the high percentage of fuel, raw

Table 13. **Commodity composition of foreign trade**

Per cent of total

SITC	Exports						Imports					
	1970	1975	1980	1982	1985	1986	1970	1975	1980	1982	1985	1986
All food items [0+1+22+4]	20.0	11.9	11.7	11.3	9.3	6.6	7.9	6.9	7.7	6.1	4.7	6.5
Agricultural raw materials [2-(22+27+28)]	5.7	5.0	6.0	4.2	3.1	3.2	8.7	6.5	6.7	7.1	7.9	6.8
Fuels [3]	1.2	0.8	2.6	1.9	2.8	2.2	4.8	12.3	23.6	25.8	27.2	22.3
Ores and metals [27+28+67+68]	17.7	16.0	9.1	7.1	9.8	8.8	17.1	15.5	11.7	10.8	11.9	10.8
Manufactured goods [5 to 8-(67+68)]	55.3	66.1	70.2	75.2	74.8	79.1	61.5	58.7	50.2	5.2	48.3	53.5
Unallocated	0.1	0.2	0.4	0.3	0.2	0.2	0.0	0.1	0.1	0.0	0.0	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD, *Foreign Trade by Commodities*, 1988.

materials, ores and metals in imports. With regard to imports, the share of finished consumer goods, at around 5 per cent in recent years, is remarkably small. This lopsided structure biased in favour of raw and intermediate materials owes much to the industrialisation policy and the high protection given to domestic producers of finished consumer goods, who in turn depend heavily on imported inputs. Indeed, in 1985 imports of raw and intermediate materials were equivalent to one-half of gross value added in industry and one-quarter of intermediate consumption.

Table 14. **Export concentration indices**

Country	1970		1983	
	Number of commodities exported[1]	Concentration index[2]	Number of commodities exported[1]	Concentration index[2]
Japan	66	0.131	164	0.206
Canada	67	0.184	165	0.205
United Kingdom	78	0.098	179	0.146
Netherlands	73	0.075	174	0.141
Germany	78	0.133	180	0.139
Greece	12	0.166	150	0.128
Spain	62	0.109	172	0.118
Italy	70	0.113	178	0.102
France	81	0.087	179	0.088
Yugoslavia	59	0.095	164	0.079
Indonesia	48	0.368	112	0.583
Mexico	35	0.116	152	0.516
Philippines	78	0.324	131	0.255
Korea (Rep. of)	22	0.271	147	0.186
India	41	0.139	160	0.183
Thailand	92	0.262	136	0.181
Brazil	43	0.335	162	0.133

1. This figure includes only those products whose export value exceeded $50 000 in 1970 and $100 000 in 1983 and/or accounted for more than 0.3 per cent of the country's total exports.
2. Hirschmann index normalised to make values ranging from 0 to 1 (maximum concentration) on the basis of 182 products at the three-digit SITC level. The greater the number of products exported, the lower the concentration index. The formula is the following:

$$H_j = \frac{\sqrt{\sum_{i=1}^{182}\left(\frac{x_i}{X}\right)^2} - \sqrt{1/182}}{1 - \sqrt{1/182}}$$

where

j = country index;
x_i = value of exports of commodity i;
$X = \sum_{i=1}^{182} x_i$

Source: Handbook of International Trade and Development Statistics, UNCTAD, 1986.

The commodity structure of exports has changed significantly since the 1970s. In particular, the share of food and agricultural raw materials shrank considerably during the first half of the 1970s and again after 1983. Similarly, the share of ores and metals declined sharply during the 1970s but has since changed little. By contrast, the share of manufactures has shown a steep rise – from 55 per cent in 1970 to 80 per cent in 1986. This places Yugoslavia above the average of OECD Europe, manifesting the country's wide industrial base. Perhaps even more interesting is the large number of exported products, which in turn reflects the high degree of dispersion of domestic production. In 1983, the number of products which represented at least 0.3 per cent of total exports amounted to 164, putting Yugoslavia ahead of all developing countries, including NICs and at the same level as some industrially more advanced bigger countries. Another indicator of the lack of industrial specialisation and the often residual nature of exports is the degree of export concentration (Table 14). Indeed, of all the countries examined – OECD and developing countries alike – Yugoslavia has the smallest concentration index, only about half that of major industrial countries like Japan, Germany and the United Kingdom.

Export performance

A country's comparative "export performance" can be measured in value or volume terms by the difference in growth rates between exports and global world trade or exports and trade-weighted market growth. The first measure disregards possible favourable or unfavourable effects on export growth resulting from the initial export structure. The second measure explicitly allows for such structural influences, focusing on changes in country and/or product-specific market shares. The results of the Secretariat's export performance study, detailed in Annex II and summarised in Table 15, are based on trade statistics (SITC basis) in current dollar values[35]. The global growth differential between world trade and Yugoslav exports is decomposed into three additive components (constant market share analysis):

- The *regional* market effect, which measures the difference between the growth of world trade and world trade weighted by the geographical pattern (eleven regions) of Yugoslav exports;
- The *commodity* market effect, which measures the difference between growth of world trade and world trade weighted by the commodity composition (twenty-two commodity groups) of Yugoslav exports;
- The *competitive* effect, which shows the percentage change in Yugoslavia's world market share which, *ceteris paribus*, would result from competitive

factors comprising prices, quality, design, marketing, delivery conditions and non-market influences such as discriminatory trade practices.

Given the particular importance of trade in convertible currencies, Yugoslavia's export performance is shown in the world as a whole as well as in the OECD area.

As can be seen from the top part of Table 15 Yugoslavia's relative export performance improved significantly between the fifteen years to 1980 and the more recent period. The switch from a small negative to a positive growth differential of exports relative to world trade (column 3) was all the more remarkable as sales abroad in the first period are shown to have benefited on balance from a favourable

Table 15. **Export performance**

Annual percentage change

	WORLD					
	World trade	Yugoslav exports	Export growth differential	Regional effect[1]	Commodity effect[2]	Competitive effect[3]
	1	2	3 (2-1)	4	5	6 (3-4-5)
1965-80	16.6	16.1	-0.5	1.0	-0.2	-1.3
1980-86	3.7	5.5	1.8	-1.1	1.2	1.7
1983	-3.0	-25.2	-22.2	-4.1	3.1	-21.2
1984	7.3	28.2	20.7	-6.0	1.1	25.7
1985	2.6	3.7	1.1	-2.3	0.9	2.5
1986	10.6	-3.2	-13.8	-5.3	7.7	-16.2
	OECD					
	Total OECD trade	Yugoslav exports to OECD	Export growth differential	Regional effect[1]	Commodity effect[2]	Competitive effect[3]
	1	2	3 (2-1)	4	5	6 (3-4-5)
1965-80	15.9	14.0	-1.9	1.7	-1.2	-2.4
1980-86	4.2	2.7	-1.5	0.5	0.7	-2.7
1983	-1.6	-11.5	-9.9	-1.8	3.1	-11.2
1984	9.1	40.3	31.2	-3.1	0.3	34.0
1985	3.8	0.2	-3.6	1.5	0.2	-5.3
1986	12.0	0.2	-11.8	4.8	8.2	-24.8

Note: Export performance on the basis of constant market shares analysis (see Annex II).

1. Excess (positive sign) of Yugoslav regional export market growth (import growth of customer countries weighted by Yugoslavia's initial export structure) over growth of world (or OECD) trade.
2. Excess (positive sign) of Yugoslav commodity market growth (world imports of commodities weighted by Yugoslavia's export pattern) over growth of world (or OECD) trade.
3. Calculated as a residual, i.e. including the effect of non-market factors.

Source: Secretariat calculations based on OECD Foreign Trade Statistics.

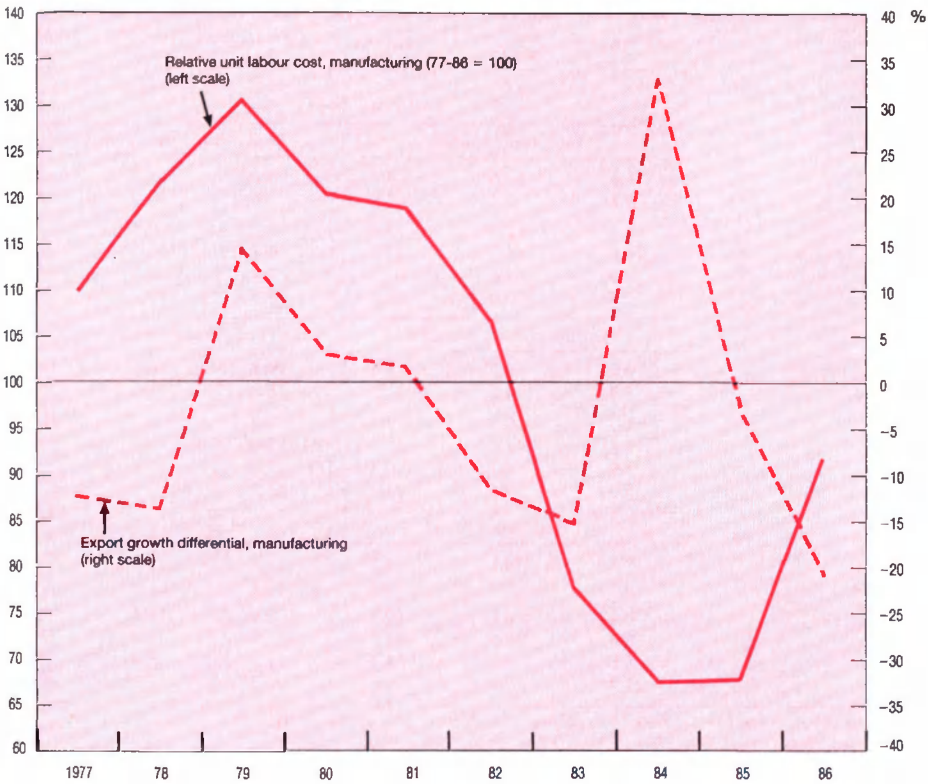
export structure (a slightly negative commodity effect being more than offset by a positive regional effect) while this was hardly the case in the subsequent period. Consequently, there was a marked turnaround in the impact of competitive (including miscellaneous) factors on market shares (column 6) from a sizeable negative to an even bigger positive influence. The change of sign of the regional effect reflects the slowdown of growth of Comecon and developing countries' markets where Yugoslavia traditionally holds a relatively big share.

It is to be noted, however, that the improved overall export performance since 1980 was exclusively due to gains in market shares outside the OECD area; in these markets design, quality and degree of technological sophistication may be less important. The fact that trade with non-OECD countries is to a large extent on a "clearing account" basis may also explain the relatively faster growth of exports to these markets since after the second oil shock increased exports had to be realised in order to pay for the higher oil bill.

Throughout the twenty years under review Yugoslavia lost export market shares in the OECD area almost continually. The losses were bigger on a trade-weighted basis (column 6, bottom part of Table 15) than on a global basis (column 3), notably after 1980 when both the regional and the commodity structure should have favoured Yugoslav export growth. The persistence during the 1980s of negative competitive effects is particularly disturbing if viewed against the background of relatively low demand pressure, increased export subsidies and promotion efforts and the steep fall in relative unit labour costs (Diagram 8). The failure of exports to move in line with OECD market growth must therefore be attributed to other factors. It is interesting to note in this context that there has been a growing gap between export unit values and unit labour cost developments which seem to be mainly attributable to unfavourable non-wage cost developments, partly reflecting inefficiencies in infrastructure developments and the organisation of work. Other factors which could explain the relatively modest growth of exports would seem to include deficiencies in the quality and design of products and in marketing. Market share losses may also have resulted from the fact that OECD trade includes fast growing intra-EEC trade from which Yugoslavia is excluded and which in addition may have had negative consequences for Yugoslav exporters[36].

The existence of unquantifiable trade effects resulting from discriminatory import restrictions and unavoidable mis-specifications of regional and commodity markets due to aggregation problems calls for caution in interpreting the results of any market-share analysis. In the case of Yugoslavia, recorded market-share losses in the OECD area may in part be ascribable to the above-mentioned expansion of

Diagram 8. **RELATIVE UNIT LABOUR COST AND EXPORT PERFORMANCE**



Sources: Data submitted by the National Bank of Yugoslavia and OECD Secretariat estimates.

EEC-intra trade. Another bias affecting the commodity effects shown in column 5 and the (residual) competitive effects (column 6) in the opposite direction is introduced by the relatively high share of low-quality manufactured products in fast-growing market aggregates. This probably explains why the commodity effect turned statistically positive after 1980 without correspondingly reducing the speed of overall market share losses in the OECD area. Further insight into the role of structural factors can be gained by adopting a different classification of exports and by confining the analysis to manufacturing exports (see Annex III). The results of this new approach, which uses degrees of factor-input-intensity and characteristics of productive processes as classification criteria, are shown in Table 16[37].

Table 16. **Export performance in the OECD area by main characteristics of manufacturing activities**

Annual percentage change

	OECD trade	Yugoslav exports	Difference	OECD trade	Yugoslav exports	Difference
	1	2	3 (2-1)	1	2	3 (2-1)
	Total manufacturing			Resource-intensive industries		
1979/71	18.8	14.6	–4.2	18.2	11.3	–6.9
1986/79	6.2	3.4	–2.8	2.0	–0.7	–2.7
1983	2.4	–12.8	–15.2	2.3	–9.2	–11.5
1984	11.6	44.7	33.1	6.7	44.3	37.6
1985	6.3	3.6	–2.7	–0.4	–6.7	–6.4
1986	20.3	0.0	–20.3	5.8	–10.7	–16.5
	Labour-intensive industries			Scale-intensive industries		
1979/71	19.7	14.7	–5.0	19.1	16.4	–2.7
1986/79	5.7	4.5	–1.2	6.8	8.0	1.2
1983	1.5	–16.8	–18.3	2.2	–9.3	–11.5
1984	11.9	47.4	35.5	12.0	45.7	33.7
1985	5.9	6.7	0.8	8.8	10.9	2.1
1986	26.5	3.3	–23.2	22.2	7.5	–14.7
	Differentiated goods			Science-based industries		
1979/71	18.4	24.1	5.7	18.3	23.3	5.0
1986/79	8.6	3.1	–5.5	12.1	1.6	–10.5
1983	0.4	–20.5	–20.9	8.4	–16.4	–24.8
1984	16.3	40.5	24.1	13.9	34.4	20.5
1985	8.6	7.3	–1.3	11.1	30.4	19.3
1986	27.4	7.8	–19.6	24.7	–17.1	–41.8

Note: For details of the new approach of classifying international trade, see Annex III.
Source: Secretariat calculations based on OECD Foreign Trade Statistics.

As can be seen from the top left-hand part of the table, manufacturing exports to the OECD area continued to grow considerably more slowly than OECD trade in manufactures, notwithstanding the sharp decline of relative unit labour costs between 1982 and 1984. Apart from the already-noted negative influences of other competitive factors (non-labour costs, quality, design, marketing, etc.) the concentration of manufacturing on slow-growth industries has probably contributed. Indeed, a very high share of exports still consists of resource- and labour-intensive products (Table 17) for which world demand has not only grown more slowly since the second oil shock but for which tariffs and other trade barriers are also higher than for other manufactured products.

Since 1979 exports of scale-intensive products have tended to grow faster than the OECD average. Thanks to favourable market location and increased export

Table 17. **Share of exports of manufactures**

Per cent of total trade

	1970	1975	1980	1985	1986
Resource-intensive industries					
World trade	25.1	22.9	24.1	21.0	18.8
OECD trade	28.1	27.2	27.2	22.9	20.1
Yugoslav exports to:					
World	37.2	25.7	25.8	20.7	18.2
OECD	50.2	41.4	37.1	33.4	29.8
Labour intensive industries					
World trade	14.0	13.1	14.1	13.4	14.1
OECD trade	14.7	14.7	15.6	14.4	15.2
Yugoslav exports to:					
World	22.4	23.8	24.9	24.9	25.6
OECD	23.3	20.9	23.2	24.7	25.3
Scale-intensive industries					
World trade	33.5	35.6	33.6	34.6	34.7
OECD trade	32.6	33.1	32.2	34.1	34.6
Yugoslav exports to:					
World	26.0	31.0	27.0	31.9	30.6
OECD	17.8	21.1	23.2	26.6	29.2
Differentiated goods					
World trade	19.7	21.3	20.0	20.8	21.8
OECD trade	17.3	18.0	17.1	18.4	19.5
Yugoslav exports to:					
World	11.5	15.3	16.9	18.2	21.1
OECD	7.4	13.7	14.1	12.5	13.4
Science-based industries					
World trade	7.7	7.1	8.2	10.2	10.6
OECD trade	7.3	7.0	7.0	10.2	10.6
Yugoslav exports to:					
World	2.9	4.2	5.4	4.3	4.5
OECD	1.3	2.9	2.4	2.8	2.3

Source: Secretariat calculations based on OECD Foreign Trade Statistics.

promotion efforts, Yugoslavia seems to have benefited from the decline in the production of iron and steel and non-metallic minerals in the OECD area, especially the EEC. Yet, had it not been for the big real devaluation of the dinar in 1983, scale-intensive exports too might have lagged behind the growth of OECD trade. The devaluation may also explain the relative buoyancy in exports of ships where labour costs weigh heavily, and which account for nearly one-fifth of scale-intensive exports.

Contrary to trends generally elsewhere, the share of "differentiated" and "science-based" goods in exports to the OECD has been on a downward trend since the mid-1970s (Table 17). As a result, the share of these two categories in total manufactured exports to the OECD receded to about 15 per cent by the mid-1980s, whereas the corresponding share in OECD trade increased to 30 per cent, up from 25 per cent ten years earlier. The performance was particularly weak in exports of science-based industries, which showed a meagre 1.6 per cent annual rate of growth between 1979 and 1986 compared with 12.1 per cent for OECD trade. These trends underline the inability of the Yugoslav economy to adjust its industrial structure towards fast-growing high-value-added sectors. The main reason for the relative lack of growth industries seems to be the inward-looking industrialisation process which, as discussed above, has entailed an excessive diversification and fragmentation of lines production and sub-optimal plant size, in turn leading to insufficient employment of qualified personnel. In addition, the lack of capital mobility and the tying-up of resources to stagnant or declining low-wage industries have also hindered the expansion of more dynamic internationally-competing manufacturing industries.

New measures

One of the principal aims of the May 1988 reforms is to ease the external constraint on growth and to promote Yugoslavia's integretion into the world economy. The Government announced a programme of import liberalisation and the establishment of a free foreign exchange market. The proportion of "free" imports, i.e. not subject to restrictions, was raised from 14 per cent in 1987 to 40 per cent (from 12.2 per cent to 35 per cent for convertible currency imports) at the end of May and will be increased further to 50 per cent by 1st January 1989. The proportion of imports under the licencing and quota regimes was correspondingly reduced from 51 per cent to 26 per cent (from 39.1 per cent to 27.2 per cent for convertible currency imports) and that under the conditionally free import regime to 34 per cent (from 48.7 per cent to 37.8 per cent for convertible currency imports). The liberalisation is planned to be completed in 1990. Concurrently, a unified foreign exchange market has been established for current and authorised capital transactions, in which all authorised banks and through them all enterprises will have free access and in which the exchange rate will be determined by the total demand and total supply of foreign exchange. As a result the exchange rate is expected to come closer to its clearing level. The NBY is not expected to intervene with a view to preventing fundamental market forces from clearing the market but only in order to dampen erratic fluctuations. In order to be able to play this limited role and to strengthen confidence in the new system, an external financial support scheme has been secured. It is thought that for this purpose foreign exchange in the form of "fresh" funds amounting to some US$1.4 billion would be necessary in 1988[38]. The import liberalisation and the establishment of a unified foreign exchange market and the related move towards full convertibility of the dinar are expected to become a powerful motor for structural change and a dampening factor on inflation.

IV. Current trends and short-term prospects

1988 will again be a difficult year for the Yugoslav economy given the persistence of strong inflation expectations and severe balance-of-payments constraints. Moreover, protracted debates on reforms and constitutional changes are bound to increase uncertainty and provoke defensive reactions by interested groups who feel disadvantaged by the new policies. More generally, the instability of world financial markets, the uncertainties related to debt, cross exchange-rate changes and the marked fluctuations in raw material and energy prices are making the Yugoslav economy particularly vulnerable to disruptive speculative behaviour and unrest. The expansion of exports in convertible currencies will be negatively affected by the projected slowdown of growth of import volumes as well as dollar prices in the OECD area. The expected upturn in import volumes of Comecon and developing countries should, however, more than compensate for the projected slowdown in OECD markets, though not in balance-of-payments terms, given the relatively high import content in convertible currencies of manufactured exports.

Official targets and economic policies in 1988

The 1988 Economic Resolution

On 14th November 1987 the authorities introduced the first package of anti-inflationary measures. Although the measures had been designed to set the framework for policies and targets for 1988, the Economic Resolution for 1988 was not voted until the end of January 1988. This delay is explained by the importance of the issues which had to be addressed, the severity of the measures that had to be envisaged and the natural conflict of interests in reaching an agreement on a nationwide basis. The Resolution projects a growth of GSP of 2 per cent, led by final domestic demand. A sharp recovery of fixed investment is expected, and a small pick-up of private consumption. Largely due to the positive real interest rate policy, a strong negative contribution from stockbuilding is forecast to offset the upturn of final domestic demand. An upturn in export volumes is also projected, but as this might be more than offset by strongly rising imports, the contribution of the real foreign balance to growth may well turn out to be negative. Accordingly, the positive GSP growth is explained by a sizeable positive contribution of the statistical discrepancy, indicating the high degree of uncertainty attaching to the forecast. The current external account in convertible currencies is likely to remain in small surplus as imports on this account can be expected to grow more slowly than total imports and invisible earnings should recover from their depressed 1987 level. Moreover, the Government counts on credit disbursements from the World Bank and the European

Table 18. **Economic Resolutions and outcomes**

Percentage change at constant 1985 prices

	1986		1987		1988
	Resolution	Outcome	Resolution	Outcome[1]	Resolution
Private consumption	2.0	4.5	1.1	-1.0	0.5
Public consumption	1.9	4.6	-0.1	-3.0	-3.2
Fixed investment	3.2	3.5	4.0	-4.0	2.5
Final domestic demand	2.3	4.2	1.8	-2.0	0.6
Stockbuilding[2]	0.4	0.0		1.4	-0.6
Total domestic demand	2.2	3.4		-0.2	0.0
Foreign balance	0.4	-1.8	0.0	1.8	-1.8
Exports	5.0	2.0	4.5	0.4	5.4
Imports	3.8	8.8	4.0	-5.8	12.4
Statistical discrepancy	0.4	1.9		-2.0	3.9
Social product	3.0	3.5	3.0	-0.5	2.0
of which:					
Agriculture	8.0	10.1	2.5	-6.9	4.0
Industry	3.0	3.9	3.5	0.7	2.0
Construction	-1.2	-1.4	2.5	-4.0	0.2
Services	2.5	1.7	2.8	0.8	1.6
Memorandum items:					
Current external balance in convertible currencies ($ billion)	(820)	(174)	(700)	(1 037)	(400)
Socialised sector					
Employment	2.0	2.9	2.0	2.1	1.0
Productivity	0.5	-0.3	1.1	-1.8	0.8
of which:					
Industry	1.0	0.1	1.1	-2.3	1.0
Real net average earnings	0.5	10.2	1.3	-6.7	-0.5

1. Official estimates
2. Percentage point contribution to the growth of the social product.
Source: Federal Planning Office.

Investment Bank for specific projects as well as on official and commercial credits.

Employment in the socialised sector is set to increase by 1 per cent, together with an increase in labour productivity of 0.8 per cent after several years of decline. The improved growth performance embodied in the official forecast reflects in an important measure the projected swing in agricultural output from a marked decline in 1987 to an appreciable rise in 1988. The acceleration in the growth of non-agricultural output is expected to be small. However, given the downward trend of output during most of 1987, the realisation of the 1988 targets implies an increase in non-agricultural GSP of as much as 5 per cent in the course of 1988, which may not be easy to reconcile with the hoped-for progress on the inflation front. With abundant stocks at the start of the year and fewer import restrictions, shortages of raw and intermediate materials, which affected production last year, may, however, be avoided. Inflation is projected to decline markedly and although no explicit target has been set, the Budget is based on an increase of the GSP price deflator of 80 per cent, after 120 per cent in 1987. Allowing for the carry-over from 1987, the inflation objective implies an even more marked improvement in the course of the year – an increase in consumer prices by some 35 per cent compared with 167.4 per cent during 1987.

Economic policies and controls

The November package had an important bearing on the economy in the first half of 1988. Indeed, the achievement of the Resolution targets for 1988 were seen to depend crucially on the successful implementation of the measures included in the package. Its four principal elements were:

- An immediate devaluation of the dinar by some 25 per cent;
- A partial price freeze until 15th May 1988. For products which had recorded above-average price increases in the first nine months of 1987, prices had either to be rolled back to their level of 1st October 1987 or were not allowed to be revised upwards on account of the correction of price disparities[39] and the devaluation of the dinar. The attempts to eliminate price disparities in November involved marked price increases in some basic products, in particular the price of energy by about 66 per cent, of some basic food items and railway fares by over 30 per cent and iron and steel by 60 per cent. For enterprises whose prices during the first nine months of 1987 had advanced at or below the average, it was decreed that only just over one-half of the

increase in costs resulting from these adjustments and from the devaluation could be passed on to prices.

- Specific wage norms applicable up to the 15th May 1988 were introduced for different sectors of the economy: *i)* wages in most public sectors (except in health and education) were frozen at their September 1987 level; *ii)* in financial institutions and in a few more sectors the freeze was to be effected at the third-quarter 1987 level; *iii)* in enterprises in productive sectors (covering 78 per cent of employees) wages were allowed to rise, provided that the income distribution norms were met; *iv)* wages of public sector employees in health and education were indexed to wages in enterprises; and *v)* in ten branches of industry, including electricity and oil, where wage-earners enjoy earnings considerably above the average, the increase in wages was to be limited to 90 per cent of the actual increase in wages in productive sectors;
- Collective consumption outlays in all enterprises were to be curtailed in real terms.

The Resolution assumed continuation of a tight fiscal stance in 1988, so as to reduce the GSP expenditure share of the public sector by 2 percentage points. Federal budget total expenditure was projected to increase at the same rate as nominal GSP, mainly on account of above-average increases in defence, grants to underdeveloped regions and investment. By contrast, the Federal government's wage bill was foreseen to be reduced in real terms, reflecting the tight income norms. Largely for the same reason, expenditure of lower levels of government should also decline in real terms. The rise in the real value of the pension bill is planned to be restricted to below 6 per cent, although, on account of the increase in the number of pensioners and adjustment of pension rights, a real increase of 8 per cent would normally have been warranted. The difference is explained by an average decline of about 1 per cent in the purchasing power of pensions and by economies due to tighter controls of pension entitlements. Expenditure on health, unemployment benefits and especially on children's allowances was expected to be considerably reduced in real terms.

In order to prevent public sector agencies building up financial reserves which might induce expenditure overruns, the Resolution stipulated that revenues of Republics, Provinces, local authorities and self-management communities of interest should grow by 10 percentage points slower than the income of enterprises in the socialised sector in the respective Republics and Provinces. For the same reason, surplus funds of self-management communities of interest for pensions, science and some minor activities (largely reflecting excessive wage rises in the enterprise sector up to last October) will be frozen. Apart from the real decline in contributions to social insurance funds (in line with the decline in real wages) it is not yet clear what other taxes will be cut in order to achieve the global goal of a 10 per cent real reduction in revenues. Moreover, there may be strong resistance to tax cuts by the various levels of government, given the natural reluctance to accept cuts in real expenditure.

Higher inflation than has been allowed for in the Federal budget and in the Resolution has rendered the implementation of the income norms in the general government sector extremely difficult. Indeed, the application of the norms that aimed at freezing wages for seven months up to mid-May would have meant a fall of about 40 per cent in real wages of most public sector employees between September 1987 and April 1988. Judging from past experience, cuts in real income of such magnitude cannot be expected to occur. Stronger nominal wage pressure, together with inflation-induced higher nominal expenditure growth for purchases of goods and services, suggest higher total expenditure than budgeted. Even so, generally restrictive attitudes might result in a further contraction of the public sector share in GSP, thereby helping to curb domestic demand growth.

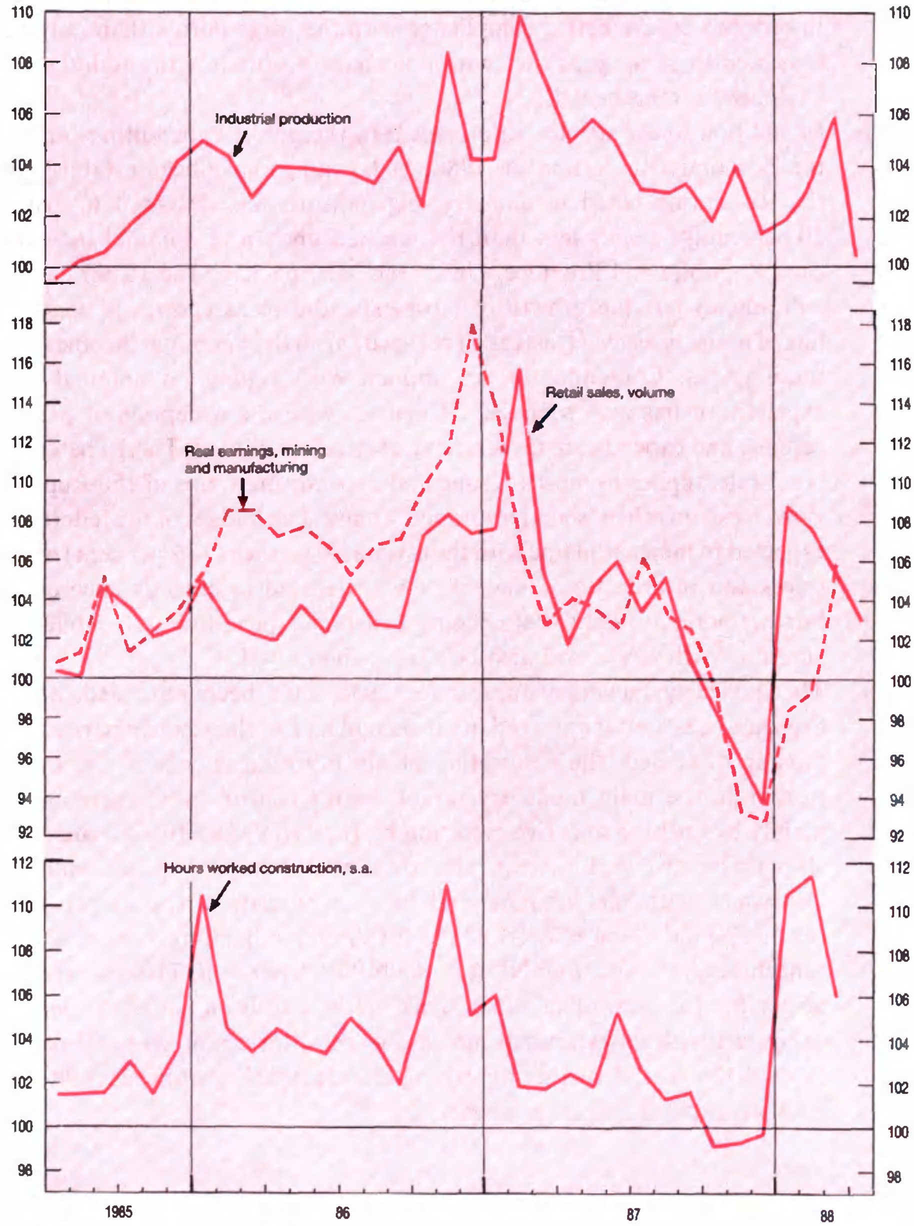
Consistent with the Resolution, monetary policies were planned to be restrictive in 1988. Excluding valuation effects, the growth of M2 was set at the low rate of 27 per cent and for dinar credits at 21 per cent, implying a marked decline in real terms[40]. Monetary and credit developments were intended to be monitored on a monthly basis and the reactivation of the compulsory ratios, obligatory investments in NBY bills and the reduction of the NBY rediscounting ratio of selective credits (see Part II) should serve to increase the efficacy of monetary management. The authorities have also repeated their commitment to pursue a real-positive-interest-rate policy both for anti-inflationary purposes and for allocative reasons. Indeed, after strong negative rates in 1987 most real interest rates on deposits have turned positive in the early months of 1988 (Diagram 2).

In order to contain the risk of a renewed twist to the price/wage spiral after the expiration of the partial price freeze, the Government took severe short-term measures in May as a complement to the structural reforms discussed in Part II. These measures establish three mutually reinforcing nominal anchors:

- A ceiling on the growth of *gross personal earnings* (including collective consumption) in the socialised sector has been fixed. In the first half of 1988, the year-to-year increase in average earnings should be limited to 139 per cent. In the first nine months the year-to-year rise is to be reduced to 132 per cent and for 1988 as a whole to 119 per cent. However, as this measure also allows for certain exemptions in enterprises with relatively high operating surpluses, average gross earnings are officially estimated to rise to 122 per cent in 1988 as a whole, compared with an expected inflation of 133 per cent. In order to ensure better compliance with the wage norms than in the first four months of the year the control mechanisms, mainly through the SDK, have been strengthened.

- In addition to the stricter enforcement of the public expenditure targets of the Economic Resolution for 1988, cash ceilings have been established. In the Resolution voted in January, expenditure was designed to grow by 10 percentage points less than the *realised* growth of nominal incomes in each Republic and Province. Under the May package the 10 per cent rule still applies but the growth of most expenditure categories is henceforth linked to the *projected* (instead of realised) growth of nominal incomes and of retail prices. Consequently, an implicit cash ceiling on nominal public expenditure has also been set. Moreover, with the exception of pensions, revenue and expenditure targets have been reformulated. The 10 percentage point rule applies to most revenue and expenditure items of the Republics, Provinces and other "social insurance" funds. The budget of the federation is expected to increase in line with the estimated growth (133 per cent) of retail prices and in order to achieve it, it was decided to curb defence outlays. Furthermore, in order to better control current expenditure, the public sector accounts with banks will also be closely monitored.
- The quarterly monetary targets for 1988 have been redefined, and are expected to be better enforced in the second half of the year. In particular, as already discussed, the restoration of net domestic assets of the banking system as the main monetary target, better control over reserve money, mainly by curbing selective crediting by the NBY, and the introduction of strongly positive real interest rates are expected to play an important role. Consistent with the inflation and income objectives, the target growth (excluding valuation effects) of the NDA of the banking system is 26 per cent through the year and NDA of the NBY 15 per cent. The corresponding target for the growth of dinar bank credit has been set at 66 per cent, compared with an estimated increase of retail prices of 90 to 95 per cent through the year. A further tightening monetary policy stance is envisaged if inflation exceeds official estimates.

Diagram 9. **CONJONCTURAL INDICATORS**
(1985 = 100)



Source: OECD, *Main Economic Indicators.*

Recent indicators and uncertainties

Outcomes so far have been out of line with the ambitious Resolution targets making the assessment of likely developments extremely difficult. In particular, the underlying inflationary pressure has remained strong. The devaluation and elimination of price disparities in last November and the associated sharp increases in prices of a number of essential products are officially estimated to have raised industrial producer prices and consumer prices by 25 per cent and 17 per cent respectively. The repercussions of this price surge on other prices, together with the lack of foreign competition, the predominance of oligopolistic behaviour and the technical difficulties of ensuring compliance with the official guidelines, may explain why prices remained under strong upward pressure even after the introduction of the freeze. In addition, the Resolution does not seem to have taken sufficient account of increased claims on enterprise income as a result of the projected sharp increase in interest payments, the planned increase of the gross savings rate and the directives for increasing financial reserves. These additional claims conflict with the understandable desire to preserve the level of real wages. Given the limited scope for raising productivity, each individual enterprise may therefore seek to meet competing claims by raising prices more than others.

Between the beginning of the freeze and April consumer prices rose at an annual rate of 93 per cent, or by 60 to 70 per cent excluding the initial boost to prices stemming from the correction of price disparities and devaluation effects. In the wake of the inflationary momentum so far, and in line with the May package, a new and more realistic inflation target has been set – 90 to 95 per cent increase in retail prices in the year to December 1988[41]. However, it is not clear how much pent-up price pressure could be released after the end of the price freeze and under the price liberalisation process. Moreover, there is still uncertainty regarding the effects of the new interest rate formula on enterprises' financial costs and cash-flow[42]. For the realisation of the inflation target, close observance of the credit expansion target seems, therefore, to be crucial, especially in the critical period ahead when the credibility of the monetary policy will be tested.

Sharply rising real interest rates, the negative carry-over from 1987, and the stronger-than-assumed inflationary momentum will make it also difficult to achieve the 1988 Economic Resolution real targets. Notably, final domestic demand may be weaker than forecast but this should facilitate the disinflationary process and speed up the shift of resources from the domestically-oriented to the internationally-competing sectors. Indeed, helped by the devaluation, merchandise export volumes increased by around one-third in the first quarter of 1988 over a year earlier. This, together with a moderate import growth produced a surplus on trade in convertible currencies for the first time in January-April 1988. However, these favourable trends may be temporarily interrupted following the import and foreign exchange liberalisation. To sum up, in a period during which fundamental structural and institutional changes are being implemented and new instruments are introduced, it is impossible to make any valid assessment regarding the development of nominal as well as real aggregates in the rest of 1988.

V. Conclusions

Yugoslavia is in the midst of a period of important reforms, involving far-reaching reconsideration of basic policy approaches and fundamental principles of economic management. The ultimate goal of most reform projects is to strengthen market mechanisms by introducing penalties for economic failure and rewards for economic efficiency as well as to improve the arsenal of economic policy instruments. So far, only a number of new measures have been fully implemented; many reforms are still being debated or await legislative acts – often requiring constitutional change – before they can be realised. Given the inevitable time lags and initial adjustment costs involved, it is perhaps not surprising that despite much more widespread awareness of existing institutional rigidities and structural weaknesses, the performance of the economy has not yet shown any sign of overall improvement.

Indeed, the Yugoslav economy appears to have been increasingly caught in a vicious circle of stagflation with balance-of-payments difficulties acting as additional impediments to faster growth. Prior to the partial price freeze imposed last November the trend rate of consumer price inflation had reached 250 per cent per annum and the basic balance of payments in convertible currencies, including errors and omissions, was in deficit in 1987 despite declining real domestic demand and severe import restrictions. While excessive inflation and the critical balance-of-payments position constitute binding constraints on policies on the demand side, the low degree of mobility and consequent inefficient use of production factors continue to act as serious impediments to faster growth on the supply side of the economy.

It hardly needs to be stressed that without a lasting reduction of inflation, a return to sustainable faster growth cannot be realised. Attempts to cure inflation symptoms by resorting to short-term administrative measures, without at the same time taking determined and bold action to tackle the roots of the problem, might even aggravate the situation. The highest policy priority must therefore be attached to lowering the unmanageably high rate of underlying inflation more permanently. The recent inflation surge cannot be explained solely by lack of disciplinary market forces or insufficient monetary and budgetary stringency. Indeed, fuelled by strong inflation expectations, the inflationary process has assumed a powerful momentum of its own. Moreover, high and varying inflation must have hindered rational decision-making and diverted entrepreneurial efforts from the real side of production with negative repercussions on cost-damping productivity growth and the speed of structural adjustment. Notwithstanding the introduction of the partial price freeze in November, inflation has since been running at annual rates of around 90 per cent, indicating the strength of underlying cost-price pressure.

On these considerations, an anti-inflation strategy, to be successful, must simultaneously address two aspects of the inflationary process: the destabilising anticipation of rising inflation and the lack of a price-damping competitive environment. The new economic programme introduced in May should greatly help in both respects, as it links wages, public spending and credit expansion to targeted rather than actual inflation, and will enhance the role of market forces by liberalising prices, imports and foreign exchange regulations. The danger of a sharp rebound of inflation after the ending of the price freeze in May might thus be greatly reduced, provided, however, that monetary policy is uncompromisingly non-accommodating and some form of price surveillance is maintained. For monetary targets to be credible they must, however, be realistic. In addition, they should extend well beyond the present period of six months, showing a progressive decline so as to influence expectations favourably.

While the urgency of winding-down the inflation spiral and of arresting speculative forces would seem to justify continuation of some form of price-wage controls, increased and simultaneous efforts are also needed to improve the functioning of markets and the efficiency of the economy. In particular, it would seem important to eliminate distortions in the pattern of incentives and disincentives on the enterprise level. Thus, financial laxity has for long been encouraged by the virtual absence of bankruptcy threats and generally easy access to cheap finance, in turn favoured by idiosyncrasies of the banking system and monetary management as discussed in greater detail in the previous OECD Survey of Yugoslavia. Similarly, there are important systemic weaknesses which – from an economy-wide point of view – lead to distortions in the allocation of real resources by encouraging excessive stockbuilding and imports on the demand side, while at the same time negatively affecting potential growth and supply elasticity by tying up labour and capital in low-efficiency production units.

Given the deficiencies in the mechanisms for allocating real and financial resources, the measures taken or proposed during the past eighteen months or so in a number of fields are particularly welcome:

- The new rules for income accounting and the issue of promissory notes should improve rational decision-making and ensure better financial discipline of enterprises;
- The new rehabilitation procedures for loss-making firms should increase the mobility of capital and labour, thus enhancing overall efficiency;
- By establishing positive real interest rates, reducing selective credit allocation, creating capital-market instruments, making banks less dependent on enterprises, and by strengthening the position of the National Bank, the functioning of the monetary system should be improved both with respect to allocative efficiency and better inflation control;
- Promoting joint ventures should speed up innovative processes and strengthen competition and the foreign balance. The same is true by making more effective use of the economic potential and financial resources of the private sector.

In small and medium-sized countries there is a strong positive, mutually-reinforcing relationship between internal efficiency and exposure to external competition. The analysis in Part III of this Survey suggests that much needs to be done to exploit this avenue more fully to the benefit of the Yugoslav economy. To strengthen the balance-of-payments position and ensure adequate inflows of convertible currency, the policy emphasis needs to be shifted from import substitution to export-led growth. Yugoslavia is too small a country for even limited self-sufficiency, the more so if the transfer of international technology is taken into account. Protection against imports means protecting internationally inefficient producers. At the same time, if the exchange rate is kept above its market-clearing rate, efficient producers are disfavoured in their export endeavours and the desirable shift of resources from low-productivity sectors towards efficient industries is seriously hampered.

Apart from reducing customs duties and other import restrictions, liberalising foreign-exchange markets would seem particularly important. The system of foreign exchange allocation and control, practiced of late, has distorted the structure of imports as well as exports. It included elements of artificial import stimuli as well as selective import protection and may result in sub-optimal pricing of exports. Restrictions and discriminatory controls on foreign exchange transactions not only negatively affect economic growth and efficiency, but may also discourage capital inflows by increasing the risk for the lender and the related cost of borrowing for the borrower. In line with the May reforms, liberalisation of foreign trade and payments might therefore not weaken the dinar on a permanent basis, or for that matter entail permanent terms-of-trade losses. Increasing deficits on merchandise trade might well be offset by increased capital inflows and higher invisible earnings while industrial restructuring and specialisation should over time strengthen international competitiveness and improve terms of trade. Indeed, in view of the large unexploited development potential as reflected in wide productivity differentials within the country as well as relative to more advanced industrialised countries, and low real wages of qualified labour, Yugoslavia should in principle be a net capital importer rather than running current account surpluses as it has done since 1983.

In order to attract hard currencies, the benefits offered to holders of foreign exchange deposits with Yugoslav banks have been increased significantly. As these deposits do not constitute permanent surrender of foreign exchange to the banking system and furthermore pose serious problems for monetary management (as discussed in the previous Survey), the question arises whether the advantages granted to foreign-exchange-owning households are not excessively generous relative to the cost of direct borrowing abroad. In this respect, the relevant comparison is not the interest rate paid on these deposits with that on foreign loans. Indeed, if interest rate premia were lowered, only part of the foreign exchange deposits of households would be withdrawn or not made. Hence, the cost in terms of higher interest payments compared to the incremental foreign exchange gain seems very high and should be taken into consideration when the costs of raising foreign exchange are compared.

While interest rates on foreign exchange deposits would seem excessively high in real terms, interest rates on other deposits and financial dinar claims had been running substantially below current inflation rates until very recently. It is widely recognised that sharply negative real interest rates have been a major reason for the low capital efficiency and investment misallocations. The implementation of the positive real interest rate policy in 1988, and under the May reforms, the indexation of the principal must, therefore, be highly welcome. A related issue is the absence of a market-oriented charge on enterprises' use of capital in the socialised sector. In the context of establishing more realistic income accounting rules, the authorities have imposed on each enterprise higher rates of depreciation, based on repurchase values, and have also sought to raise the net accumulation rate of capital via social compacts. However, in the absence of a well-functioning capital market, there is no mechanism which induces capital to move where it could yield the highest economic or social rate of return. But even if such market mechanisms existed, the problem of sharing the income from socialised capital more equitably among the labour force or the population at large would remain unsolved.

One way of addressing the distribution issue would be by taxing the use of socialised capital. The proceeds of such a surcharge on capital consumption could be used for the financing of urgently needed infrastructural investments with high social rates of return, and specific research and development projects that cannot easily be undertaken on an enterprise level; and secondly, for the creation and financing of a development bank with a nationwide network, extending investment credits primarily to enterprises on purely commercial criteria. To draw maximum benefit from such investible funds it is absolutely essential that the authorities, notably at the republic and local level, use their political leverage less than in the past to influence the pattern of investment, stopping previous practices of supporting the construction and continued existence of "political factories". The less government interferes in investment decisions, and the more it promotes a unified banking system and capital market, the greater the chances of moving closer towards a market economy to the benefit of the Yugoslav self-management system.

Notes and references

1. The Gross Social Product (GSP) excludes "non-productive" services, comprising financial institutions (banks, insurance companies, etc.), education, health, social protection, administration (various levels of government), liberal professions, cultural and recreational services, and a few personal services. GSP was about 6 per cent below GDP in the last few years. The main differences on the expenditure side is the exclusion of non-productive services from private consumption and of the wage and salary bill of the public sector from government consumption.
2. "Social compacts" are agreements between economic agents, enterprises and institutions, endorsed by public sector bodies. These agreements, essentially on republican and provincial levels, usually have the force of law and regulate the distribution of income in enterprises, price adjustments, employment and recruitment policies, the allocation of foreign exchange, etc.
3. The Public Sector, which broadly corresponds to general government, consists of:
   i) The governments of the Federation, of Republics and Provinces;
   ii) Municipal (local) authorities;
   iii) Various bodies (self-managed communities of interest) for education, health, social welfare, science, culture, etc.;
   iv) Specific agencies – e.g. The Socialist Alliance, The League of Communists, The Confederation of Trade Unions, the Union of Socialist Youth, etc.

   In line with the Long-Term Stabilisation Programme of 1982, the share of public expenditure in GSP was reduced by almost 5 percentage points to 31 per cent in the first half of the 1980s. In 1986 the share rose to 34.4 per cent, well above the initial Resolution target. The increase reflected in part the intended restoration of traditional pay differentials between public sector employees and the enterprise sector and higher social transfers to make good part of the fall in real pensions of previous years. In addition, there were considerable expenditure overruns, notably of wages, which rose substantially in real terms.
4. The target for the growth of net domestic assets was abandoned in mid-1986.
5. Valuation effects resulting from the depreciation of the dinar, correspond to the increase in dinar values of foreign-exchange deposits, mainly of households, minus increases in the dinar value of foreign-exchange liabilities of enterprises.
6. The share of foreign exchange deposits in total household deposits rose from 53 per cent in 1980 to 74 per cent in 1987. The problems associated with these deposits were discussed in the *OECD Survey of Yugoslavia*, January 1987, Part III, Financial Markets and Monetary Policy.

7. The other interest rates were set as follows:

   1-month deposits = annualised rate of inflation
   3-month deposits = the discount rate
   6-month deposits = the discount rate + 2 percentage points
   1-year deposits = the discount rate + 4 percentage points
   2-year deposits = the discount rate + 6 percentage points
   3-year deposits = the discount rate + 8 percentage points.

8. See Table 4.
9. *OECD Survey of Yugoslavia*, January 1987, pp. 21-22.
10. Collective consumption covers public sector outlays on health, education, culture, science, social welfare and other related services provided by communities of interest (public bodies) as well as enterprise expenditure on housing, holiday facilities, family allowances, sports grounds, etc, for their employees.
11. "Economic" sectors comprise agriculture, fishing, forestry, industry, construction, transport and communications, trade, catering services, arts and crafts, financial (banking, insurance, etc.) and other related services. "Non-economic" sectors consist of education and culture, public health and social welfare, federal, republican and provincial governments, municipal authorities and a few specialised public sector agencies.
12. The *OECD Economic Surveys of Yugoslavia* of 1987 and especially that of 1985 discussed the statistical shortcomings related to stockbuilding. The Yugoslav authorities are in the process of changing the estimation methods and the revised data will probably give smaller contributions of stockbuilding to GSP growth partly offset by stronger growth of private consumption since the early 1980s.
13. Official Yugoslav statistics show much higher unemployment rates – 15 per cent in 1987. Students and those having a job but looking for another one are included in the numerator and the denominator excludes people employed in private farming and self-employed in private non-agricultural sectors.
14. The weighting system for calculating the real effective exchange rate is biased as it is based on the currencies in which trade is conducted and not on the share of trade by country of origin. Given that much of international trade is priced in U.S. dollars and not in the currency of origin, the weight of the U.S. dollar at 43 per cent grossly overstates actual trade with the United States or even with the dollar area. Accordingly, when, as was the case in 1987, the dollar depreciates *vis-à-vis* other currencies the weights used underestimate the actual real effective depreciation of the dinar (and *vice versa*).
15. Trade on a clearing basis is when payments for exports and imports are not actually made but corresponding credits and debits are entered in a clearing account and either this must balance after a certain period or only the net position is paid in cash.
16. The decline in the deficit expressed in ECU was even bigger.
17. For a more detailed discussion of factors underlying the disappointing economic record during the 1980s see the two previous *OECD Surveys of Yugoslavia*, published in December 1984 and January 1987.

18. The factors behind the apparent "structural" weakness in Yugoslavia's international competitiveness and related trade and exchange-rate policy issues are discussed in Part III.

19. In the socialised sector the average wages of production and office workers with no more than secondary education (or equivalent technical education or on-the-job training) is only ¼ to ⅓ below that of highly educated persons and those occupying posts of enhanced responsibility. The difference has tended to narrow and even for certain branches has become negligible when comparing wages of high earners in both groups. Moreover, these differences do not take account of collective consumption, i.e. indirect income support, paid by enterprises and institutions, for example in the form of heavily subsidised rents. Collective consumption is equivalent to about 15 to 20 per cent of cash earnings and all occupational categories in the same enterprise benefit equally from it. Including collective consumption, average earnings in the former group are only one-fifth lower than in the latter. This compression of differentials in the remuneration of work for which different levels of education and training are required, appears to have negatively affected the number of students enrolling in graduate and post-graduate studies.

20. Up to 1987, the value of equipment and buildings was partly based on historic cost accounting. This meant that in periods of high inflation amortisation as a share of total operating surpluses was becoming progressively smaller and recorded net income enterprises, and hence the level collective consumption and wages, correspondingly bigger.

21. For illiquid enterprises the Rehabilitation Programme covers four months. If after this period they are still unable to service debt, bankruptcy procedures are initiated. If by the time loss-making enterprises submit their annual statements (usually around the turn of the year) they cannot cover their losses from reserves, a Rehabilitation Programme is automatically imposed at the end of February to be implemented within four months (for railways, agriculture and a few other sectors the Rehabilitation period is seven to nine months). If after this period, losses have not been covered, bankruptcy proceedings begin.

22. Nominal wages are reduced to 80 per cent of the previous year's level and adjusted by the increase of consumer prices.

23. Basic Organisations of Associated Labour (BOALs) are the smallest operating units producing a marketed or marketable output. The enterprise (or Complex Organizations of Associated Labour (COAL) is a voluntary association of BOALs linked together through contractual relations of mutual self-interest.

24. The official title of the Money Market which acts like a bank for banks is "Yugoslav Money Market and Market for Securities". It is organised by the Association of Bank Organisations in Belgrade for very short-term transactions and highly liquid funds.

25. In 1987 the NBY rediscount ratios averaged 40 per cent, ranging from 20 to 45 per cent for export credits, about 25 per cent for credits to agriculture and 30 to 36 per cent for specific import credits.

26. The increase in retail prices was 6 per cent in December 1987, giving an annual rate of increase of 106 per cent. To this were added 2 percentage points to obtain a real positive interest rate of some size. In March the NBY discount rate was fixed at 101 per cent and in April 113 per cent and in May 117 per cent.

27. About 70 per cent of foreign exchange deposits at the end of 1987 were in Deutschemark. After the application of the 4 percentage point margin *real* rates on Deutschemark deposits in Yugoslavia will be three times higher than on equivalent deposits in Euro-markets (6 per cent against 2 per cent).

28. See *OECD Survey of Yugoslavia*, Part III, "Financial Markets and Monetary Policy", January 1987.

29. The shortage of apartments is estimated at 650 000. Moreover, existing apartments are generally small and on the whole not particularly well maintained.

30. It is proposed to deduct from taxable income the instalment payments for house purchases as well as real estate taxes during the repayment of credit. Building materials for housing construction will be tax exempt. Furthermore, the contributions to the cost of public utilities and of infrastructure that housebuyers have to pay in advance of buying a house will henceforth be reduced. Part of these costs will be borne by municipalities and the rest will be paid by the owner of the house in instalments.

31. Comparative labour productivity in 1985:

OECD	= 100	Spain	= 58
EEC	= 79	Greece	= 36
Austria	= 79	Yugoslavia	= 19

32. Compensation per employee in 1985 (including fringe benefits):

OECD	= 100	Spain	= 57
EEC	= 76	Greece	= 44
Austria	= 68	Yugoslavia	= 18

33. The FEAS and its shortcomings have been discussed in the OECD Surveys of Yugoslavia, December 1984, section on the "Foreign exchange management system" pp.53-54; and January 1987, section on "Long-term policies and institutional changes", pp.30-31.

34. These highly tentative Secretariat estimates may only be indicative of broad orders of magnitude.

35. Available volume statistics are incomplete and not very reliable. Until 1982 relatively large margins of error also attach to annual data in current U.S. dollars, as the data is arbitrarily based on an exchange rate recorded at a certain point in time (usually towards the end of the previous year), which is officially called the "statistical exchange rate". This is true for the dollar-dinar rate as well as the cross rates between the various foreign currencies. Thus, annual data may not accurately show developments during and between particular years, but can still be used for evaluating trends over longer periods of time. Figures after 1982 are based on monthly current exchange rates and do not pose these valuation problems.

36. For example, after Greece's entry into the EEC in 1981 Yugoslav exports of certain agricultural exports, notably live animal and meat exports to Greece declined markedly, as the latter switched to EEC imports. Moreover, though manufacturing exports enjoy preferential access to the EEC market, specific non-custom ceilings apply to nearly one-third of manufactured exports to the EEC. Additional export restraint clauses apply to textiles and quotas with reduced tariff rates to many agricultural products.

37. For a detailed discussion of this new approach of classifying international trade see *Structural Adjustment and Economic Performance*, OECD, Paris 1987.

38. $260 million from the IMF, $150 million from the World Bank in the form of structural adjustment loans, $500 million from commercial banks and $500 million from country creditors.

39. The notion of price disparities refers to prices administratively fixed at low levels, i.e. below cost or below comparable world market prices. In the absence of market prices, large margins of error necessarily attach to calculations of reference costs of production and prices of final product. To identify the sectors with price disparities, the Federal Price Office (FPO) uses *i)* the rate of accumulation and *ii)* gross personal income per worker for each sector in comparison with the corresponding averages of the Yugoslav economy as a whole. In addition, in line with the Law of Social Price Control, other indicators like output, productivity, costs, prices, etc. are also used. For calculating price changes the FPO compares existing level of prices in the sectors concerned with corresponding world prices: *i)* import price (oil, natural gas, fertilizers), *ii)* world commodity prices (aluminium, copper, lead, zinc) and domestic prices in other countries (pharmaceutical products, iron and steel products).

40. Only modest price increases were assumed to occur during the first half of the year, followed by some acceleration in the second half, leading to a cumulative increase in consumer prices of around 35 per cent in the course of the year.

41. The May measures also included a 23.9 per cent devaluation of the dinar and increases of transport, postal and energy prices of about one-third, effective on 30th May, 1988.

42. The increase of banks' lending rates in real terms will probably be about 35 percentage points: from negative real rates of almost 25 per cent in the second half of 1987 to positive real rates of around 10 per cent in the second half of 1988.

Annex I

Price control regime

The changes in the price control regime since 1986 are shown in the following table. It should be noted that this table applies to industrial producer prices. The weight of these goods and services whose prices are freely determined is somewhat higher in the consumer price (cost-of-living) and retail price indices.

Price control since 1986

	1986					1987				1988
	Jan.	Apr.	July	Nov.	Dec.	Jan. Mar.	Apr. June	July	Aug. Oct.	28th May
Administered prices decided by the Federal Executive Council	14.7	14.7	7.4	7.4	7.9	8.5	14.7	14.7	11.3	22.0
Price requiring approval of the Federal Bureau of Prices (FBP)	12.4	4.1	5.8	31.1	26.5	26.5	26.5	26.9	26.9	14.3
Price changes subject to pre-notification to the FBP[1]	43.6	38.0	42.4	16.2	8.7	8.7	8.7	5.0	5.0	-
Buyers and FBP given thirty days advance notice					8.9	8.9	8.9	12.2	12.2	16.2
Freely-determined prices not subject to notification period	28.4	42.5	37.6	38.5	42.5	42.5	37.7	37.7	41.6	47.1
Cost-linked automatic price increases	0.9	0.7	6.8	6.8	5.5	4.9	3.5	3.5	3.0	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: For details on price control regimes since 1982 see *OECD Economic Survey of Yugoslavia*, Annex I, January 1987.

1. Until June 1986 the pre-notification period was 30 days. On 25th June 1986 this was prolonged to 120 days and in November 1986 was changed to 90 days.

Source: Federal Bureau of Prices.

Annex II

Export performance - market share analysis

The constant market share anlaysis (CMSA) of export performance used in Part III of the Survey has adopted the framework provided by Leamer and Stern[1]. This method makes it possible to isolate the various factors that influence export growth.

The calculations are based on the following formula (circumflexes indicate growth rates):

$$\hat{g} - \hat{G} = \sum_i (g_i/g)(\hat{G}_i - \hat{G}) + \sum_i (g_i/g)\left\{\sum_j (g_{ij}/g_i)\hat{G}_{ij} - \hat{G}_i\right\} + RES$$

where:

g = Yugoslav exports;
G = World trade;
g_i = Yugoslav exports of commodity i;
G_i = World trade of commodity i;
g_{ij} = Yugoslav exports of commodity i to country j;
G_{ij} = Imports of commodity i by country j.

In the above formula, the global growth differential between Yugoslav exports and world trade (left-hand side) is decomposed into three additive components as follows:

- the first item on the right-hand side is the *commodity* (composition) effect which indicates the degree to which a country's exports are concentrated in commodities with growth rates higher or lower than world average. Therefore, the positive sign of product effect shows that exports have been directed to faster growing commodity markets relative to the world average, and the negative sign of product effect indicates that the country's exports have been concentrated in relatively slowly expanding commodity markets.
- the second item is the *regional* market (distribution) effect, equals the difference between the growth in exports realised if each commodity had maintained its market share in each market (country) and the percentage by which each commodity would have grown if it had realised the same growth rate as the world trade of that commodity. The effect assumes positive values if the country's exports were concentrated in markets that enjoy relatively rapid growth. Negative values indicate a concentration of the country's export to countries with relatively slow growth.

1. E.E. Leamer and R.M. Stern, (1970): *Quantitative International Economics*, Boston.

- the third item is the residual (*competitive* effect) which is calculated by subtraction. A negative value of residual reflects the country's inability to maintain its market shares abroad and *vice versa.*

In the constant market share analysis (CMSA) as presented in the Survey, merchandise export data have been split into 22 SITC-groupings which at present appear most relevant for Yugoslavia (Table 1). The geographical markets for Yugoslav exports have been decomposed into the following 11 regions: Austria, France, Germany, Greece, Italy, Netherlands, Switzerland, United Kingdom, United States, other OECD and the rest of the world.

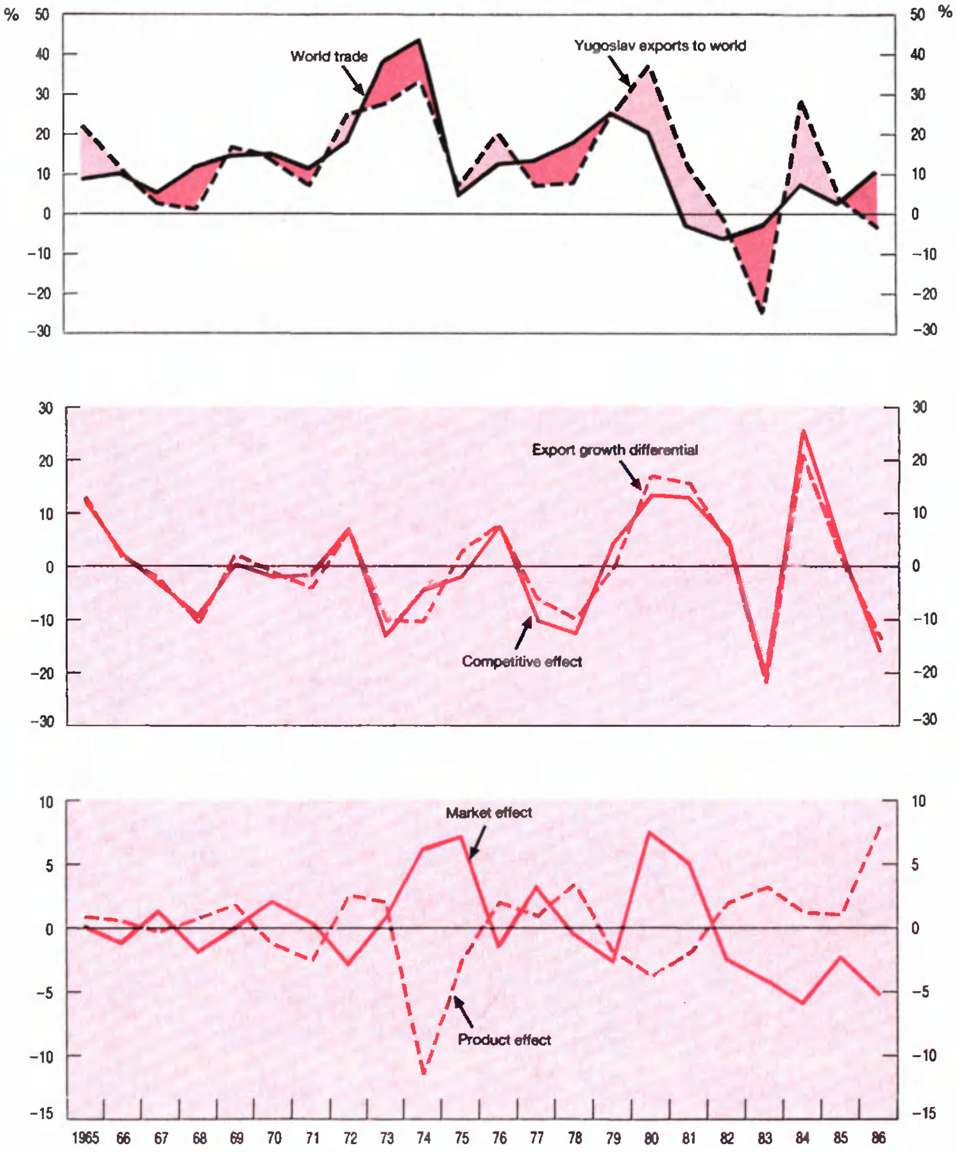
Annex II Table 1. **Yougoslav merchandise exports to world and OECD area**

Per cent of total

Product Number	SITC	Commodity group	WORLD 1965	WORLD 1970	WORLD 1975	WORLD 1980	WORLD 1986	OECD 1965	OECD 1970	OECD 1975	OECD 1980	OECD 1986
1.	00,01	Live animals and meat	15.5	9.5	5.5	3.9	2.2	27.9	14.8	12.8	8.1	4.6
2.	04,05	Cereals, vegetables and fruits	3.8	3.8	2.8	2.9	4.1	6.3	5.7	4.7	3.6	5.1
3.	Other 0,1	Other food, beverages and tobacco	6.5	5.5	3.5	4.5	2.6	6.4	4.4	5.4	3.7	3.4
4.	25, 63	Wood, cork, and wood manufactures	6.5	5.4	4.8	5.7	2.8	9.7	6.7	8.2	9.4	4.8
5.	24, 64,	Pulp, waste paper, paper and paper products	1.7	1.9	1.6	1.8	2.1	2.3	1.8	2.2	2.3	2.8
6.	3	Mineral fuels, lubricants and related materials	1.0	1.2	0.7	2.6	2.2	1.3	1.8	1.6	5.8	4.1
7.	51,52	Organic and inorganic chemicals	1.9	1.9	2.6	3.0	3.3	2.4	2.0	3.4	2.8	3.3
8.	54	Medicinal and pharmaceutical products	0.4	1.5	1.6	2.0	2.0	0.2	0.7	1.2	0.8	0.9
9.	Other 5	Other chemicals and related products	3.2	2.3	5.0	6.2	6.2	1.2	0.9	0.8	3.2	3.8
10.	65	Textile yard, fabrics and related products	4.0	4.7	4.4	4.2	3.5	4.2	5.8	2.1	3.4	4.9
11.	67	Iron and steel	3.2	4.4	5.2	2.6	3.7	2.5	3.8	4.9	3.1	4.2
12.	68	Non-ferrous metals	6.6	10.9	9.1	5.2	4.4	8.4	14.4	10.5	5.5	7.0
13.	69	Manufactures of metals	3.5	3.6	4.3	3.5	4.1	1.3	1.4	2.3	3.1	2.5
14.	Other 6	Other manufactured goods classified by material	2.6	2.8	3.5	3.8	3.7	2.4	3.0	3.6	4.7	5.7
15.	71	Power generating machinery and equipment	2.0	2.0	2.6	3.3	3.2	0.8	1.1	2.4	2.7	2.4
16.	72,73,74 75, 76	Machinery specialised for particular Industries, metal-working machinery and general industrial machines and equipment	5.0	4.4	6.4	8.7	12.6	1.4	2.2	3.4	4.5	4.5
17.	77	Electrical machinery, apparatus and appliances	4.2	4.9	6.2	6.4	6.7	1.3	2.6	5.4	6.0	5.9
18.	78	Road vehicles (including air cushion vehicles)	2.1	2.1	3.8	5.5	5.8	0.8	2.1	4.6	6.8	8.1
19.	82	Furniture and parts thereof	2.6	2.6	2.6	3.4	3.3	4.5	3.9	4.7	5.6	6.9
20.	84	Articles of apparel and clothing accessories	3.9	5.1	5.0	4.7	5.3	3.9	5.4	4.4	3.4	4.9
21.	85	Footwear	3.0	3.3	4.4	5.3	6.1	1.2	2.3	3.5	3.8	2.9
22.	Other 2, 4,7,8,9	All other products	16.8	16.2	14.4	10.8	10.1	9.6	13.2	7.9	7.7	7.3
		Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: OECD, Foreign Trade Statistics.

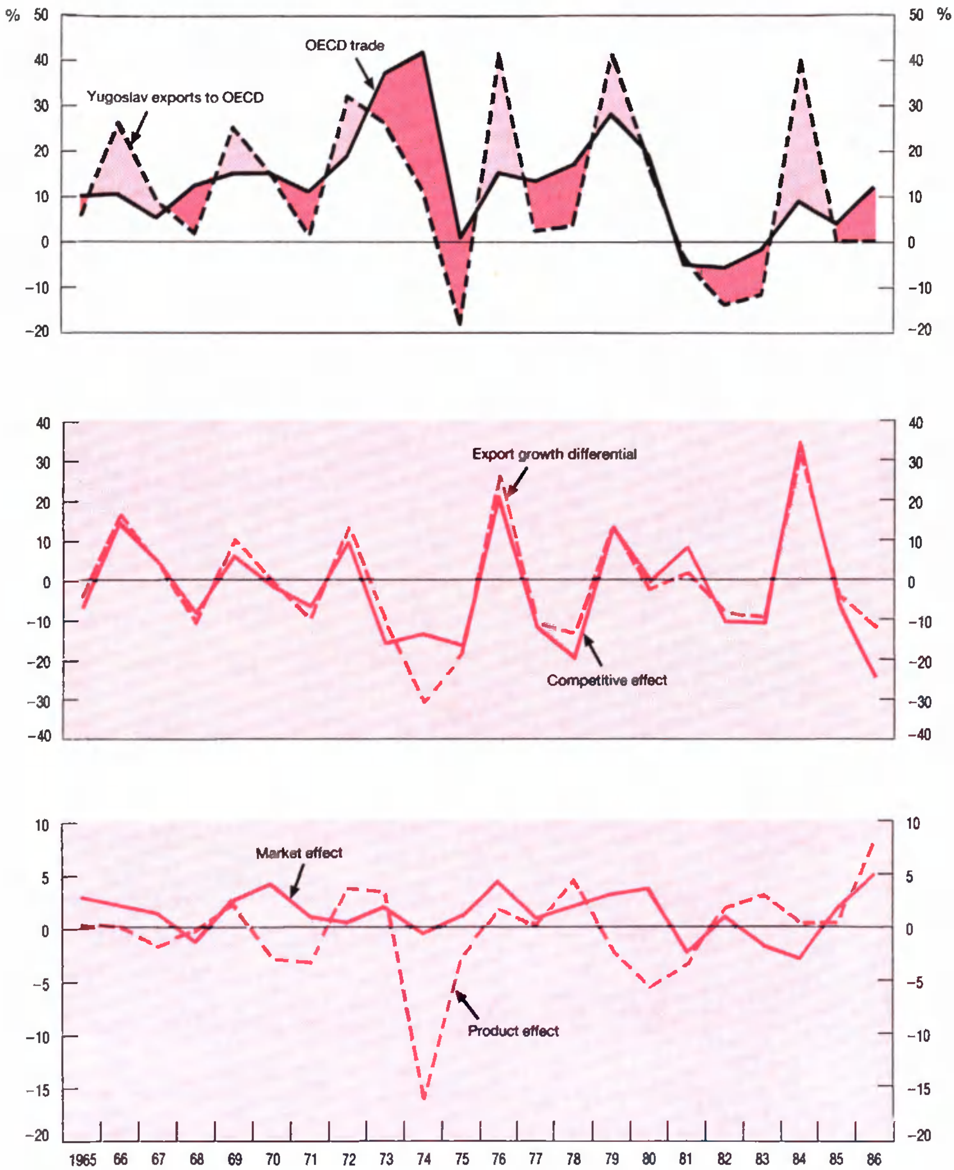
Diagram A1. **DECOMPOSITION OF THE GROWTH DIFFERENTIAL-WORLD**
Annual percentage change



Sources: OECD, *Foreign Trade Statistics* an l OECD Secretariat estimates.

Diagram A2. **DECOMPOSITION OF THE GROWTH DIFFERENTIAL-OECD**

Annual percentage change



Sources: OECD, *Foreign Trade Statistics* and OECD Secretariat estimates.

Annex III

Export performance of manufacturing activities

The approach adopted in the export performance analysis of the Yugoslav manufacturing sector distinguishes five groups of products on the basis of the primary factors affecting the competitive process in each activity (Table 1). The five groups are:

	Group	*Major factor affecting competitiveness*
i)	Resource-intensive	Access to abundant natural resources
ii)	Labour-intensive	Labour costs
iii)	Scale-intensive	Length of production runs
iv)	Differentiated goods	Tailoring products to highly varied demand characteristics
v)	Science-based	Rapid application of scientific advance

The main advantage of the approach adopted is that it provides a natural link between the way product groups are defined and the main types of economic benefits which flow from trade:

- Trade in resource- and labour-intensive products brings the allocation of resources within countries more closely into line with the international pattern of factor endowments (for example, by freeing countries with high energy costs from having to smelt bauxite);
- In scale-intensive products, trade allows firms to increase plant size and lengthen production runs, thus reducing costs;
- Through trade in differentiated goods, consumers can benefit from greater product variety without sacrificing the advantages of large-scale production;
- Finally, trade in science-based products makes it possible to spread the high fixed costs and risks of R&D over a larger market, while also ensuring that the benefits of new products and processes are rapidly diffused.

In this respect, the classification is entirely consistent with the modern theory of international trade and of foreign investment, as well as with recent work on the dynamics of technological change and industrial competition[1].

Annex III Table 1. **Classification of exports of manufactures**

Product number	Commodity Group	ISIC
	RESOURCE-INTENSIVE INDUSTRIES	
1.	Manufacturing of food, beverages and tobacco	31
2.	Manufacturing of leather, except footwear and wearing apparel	323
3.	Manufacturing of wood, wood and cork products, except furniture	331
4.	Manufacturing of pulp, paper and paperboard	3411
5.	Petroleum refineries	353
6.	Miscellaneous products of petroleum and coal	354
7.	Other non-metallic mineral products	369
8.	Non-ferrous metal basic industries	372
	LABOUR-INTENSIVE INDUSTRIES	
9.	Textile, wearing apparel and footwear industries	321/322/324
10.	Manufacture of furntiture and fixtures, except primarily metal	332
11.	Manufacture of fabricated metal products, except machinery and equipment	381
	SCALE-INTENSIVE INDUSTRIES	
12.	Manufacture of paper, paper products, printing, publishing, except 3411	34
13.	Manufacture of industrial chemicals	351
14.	Rubber products	355
15.	Plastic products n.e.c.	356
16.	Manufacture of pottery, china, earthenware, glass and glass products	361/362
17.	Iron and steel based industries	371
18.	Transport equipment excluding 3845	384
	DIFFERENTIATED GOODS	
19.	Engines and turbines	3821
20.	Agricultural machinery and equipment	3822
21.	Metal and woodworking machinery	3823
22.	Special industrial machinery and equipment excluding 3823	3824
23.	Machinery and equipment except electric n.e.c.	3829
24.	Electrical machinery, apparatus, appliances and supplies	383
25.	Photographic and optical goods, watches and clocks	3852/3
	SCIENCE-BASED INDUSTRIES	
26.	Manufacture of other chemical products	352
27.	Office, computing and accounting machinery	3825
28.	Professional, scientific, measuring and controlling equipment	3851
29.	Aircraft	3845

Source: OECD, Foreign Trade Statistics.

1. For a more detailed discussion of this approach to classifying international trade and the relevant performance in the OECD area, see *Structural Adjustment and Economic Performance*, Chapter 7, OECD, Paris 1987.

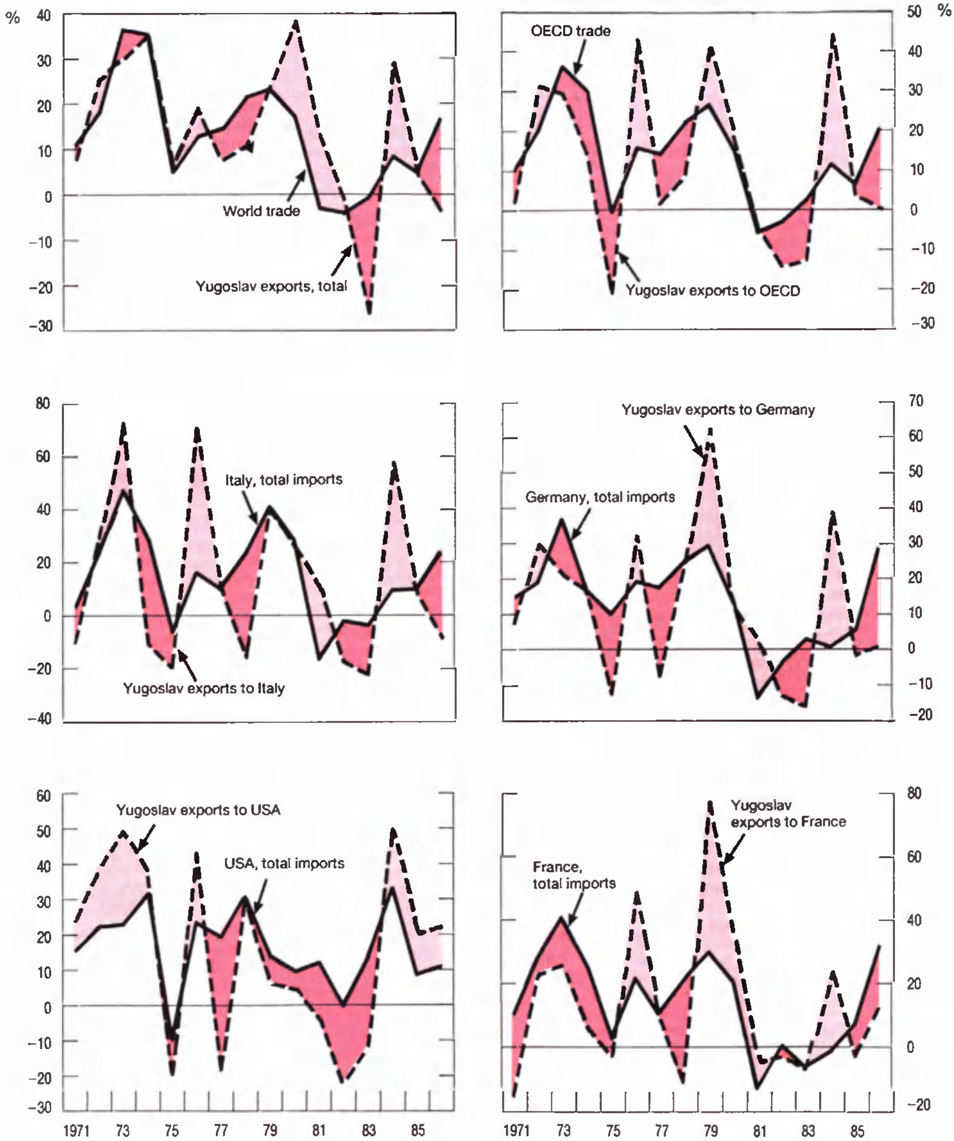
Annex III Table 2. **Yugoslav exports of manufactures to the OECD Area**

	1986 Million Dollars	1970	1975	1980	1985	1986
			Per cent of total			
1. Resource-intensive industries	993	50.2	41.4	37.1	33.4	29.8
Manufacturing of food, beverages and tobacco	273	19.6	15.1	12.4	9.1	8.2
Manufacturing of leather, except footwear and wearing apparel	33	1.7	1.8	1.1	1.2	1.0
Manufacturing of wood, wood and cork products, except furniture	159	6.6	7.1	8.8	4.9	4.7
Manufacturing of pulp, paper and paperboard	86	2.2	2.3	2.2	2.5	2.6
Petroleum refineries	126	1.1	1.4	5.0	5.3	3.8
Miscellaneous products of petroleum and coal	13	0.6	0.1	0.2	0.6	0.4
Other non-metallic mineral products	41	1.1	1.1	1.0	1.2	1.2
Non-ferrous metal basic industries	262	17.4	12.6	6.4	8.5	7.9
2. Labour-intensive industries	844	23.3	20.9	23.2	24.7	25.3
Textile, wearing apparel and footwear industries	475	16.5	12.2	12.6	13.5	14.2
Manufacture of furniture and fixtures, except primarily metal	224	4.0	5.0	5.6	6.5	6.7
Manufactures of fabricated metal products, except machinery and equipment	145	2.8	3.7	5.0	4.6	4.4
3. Scale-intensive industries	974	17.8	21.1	23.2	26.6	29.2
Manufacture of paper, paper products, printing, publishing, except 3411	17	0.2	0.4	0.2	0.5	0.5
Manufacture of industrial chemicals	268	3.2	4.9	6.4	8.1	8.0
Rubber products	84	0.4	1.0	2.3	2.3	2.5
Plastic products n.e.c.	22	0.2	0.3	0.5	0.7	0.7
Manufacture of pottery, china, earthenware, glass and glass products	67	0.8	1.0	1.3	1.7	2.1
Iron- and steel-based industries	158	4.5	5.8	3.5	5.9	4.7
Transport equipment excluding 3845	358	8.4	7.7	8.9	7.4	10.7
4. Differentiated goods	448	7.4	13.7	14.1	12.5	13.4
Engines and turbines	7	0.1	0.2	0.2	0.2	0.2
Agricultural machinery and equipment	8	0.1	0.2	0.3	0.2	0.2
Metal and woodworking machinery	22	0.8	0.9	0.8	0.6	0.7
Special industrial machinery and equipment excluding 3823	18	0.6	0.7	0.8	0.3	0.5
Machinery and equipment except electric n.e.c.	125	1.9	4.2	4.1	3.6	3.8
Electrical machinery, apparatus, appliances and supplies	261	3.8	7.3	7.7	7.4	7.8
Photographic and optical goods, watches and clocks	7	0.1	0.1	0.3	0.2	0.2
5. Science-based industries	78	1.3	2.9	2.4	2.8	2.3
Manufacture of other chemical products	45	1.1	1.5	1.1	1.3	1.3
Office, computing and accounting machinery	9	0.0	0.6	0.5	0.3	0.3
Professional, scientific, measuring and controlling equipment	21	0.2	0.8	0.7	0.6	0.6
Aircraft	3	0.0	0.0	0.1	0.6	0.1
Total exports to OECD	3337	100.0	100.0	100.0	100.0	100.0

Source: OECD, Foreign Trade Statistics.

Diagram A3. **DECOMPOSITION OF THE GROWTH DIFFERENTIAL OF MANUFACTURING SECTOR**

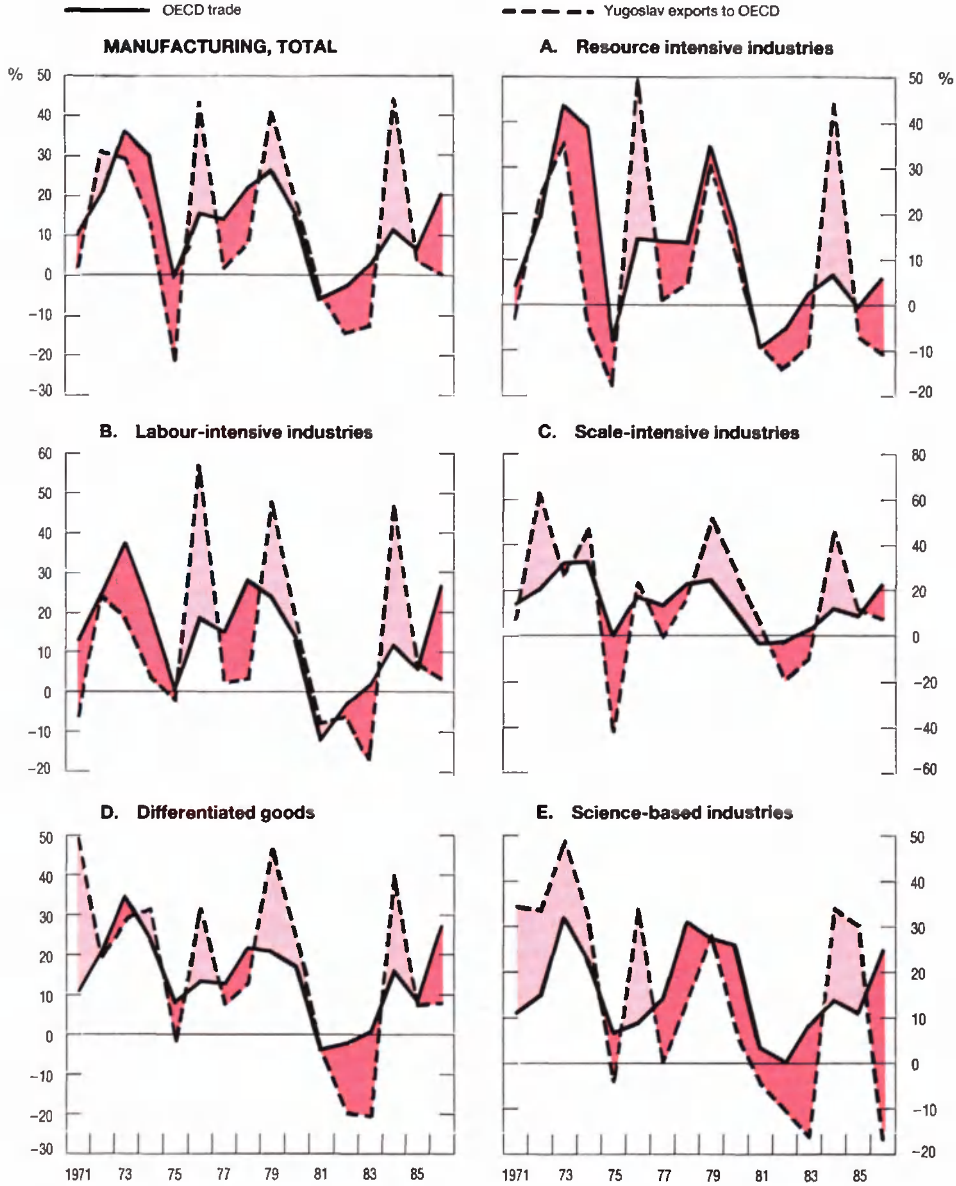
Annual percentage change



Source: OECD, *Foreign Trade Statistics.*

Diagram A4. **DECOMPOSITION OF THE GROWTH DIFFERENTIAL BY MAIN CHARACTERISTICS OF MANUFACTURING ACTIVITIES**

Annual percentage change



Source: OECD, *Foreign Trade Statistics.*

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STATISTICAL ANNEX

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

Millions of dinars

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
						Current prices					
Consumers' expenditure	326 191	397 837	487 200	622 447	818 829	1 143 300	1 510 662	2 087 788	3 207 200	5 659 400	11 205 900
Collective consumption	60 265	72 556	86 439	110 900	143 060	198 200	260 140	345 119	524 300	970 000	1 910 000
Gross fixed capital formation	207 283	267 956	357 314	447 581	545 665	684 961	854 816	1 029 539	1 458 438	2 608 800	5 047 000
Change in stocks	27 492	58 222	53 931	90 940	185 546	297 705	372 602	630 959	1 232 926	2 092 800	3 948 900
Foreign balance	–30 427	–62 458	–75 993	–128 459	–153 290	–123 395	–144 034	–98 964	–159 869	–136 300	–167 100
Exports of goods and services	117 793	127 857	146 931	200 735	369 232	446 465	599 956	851 298	1 703 769	2 637 500	3 762 700
Imports of goods and services	148 308	190 315	222 924	329 194	522 522	569 360	743 990	950 262	1 863 638	2 773 800	3 929 800
Statistical discrepancy	1 844	191	–7 076	22 008	13 279	7 479	70 648	69 848	62 848	90 000	110 000
Social product	592 560	734 304	901 815	1 165 417	1 553 089	2 208 250	2 924 794	4 064 289	6 325 843	11 284 700	22 054 700
						1972 prices					
Consumers' expenditure	163 097	174 595	186 737	197 101	198 481	196 496	196 345	192 919	190 990	190 900	199 400
Collective consumption	28 448	30 553	32 540	34 015	33 670	32 050	31 820	30 194	30 125	30 700	32 110
Gross fixed capital formation	99 689	109 114	120 589	128 293	120 717	108 887	102 892	92 900	83 979	80 903	83 706
Change in stocks	13 977	25 796	20 799	29 054	45 499	52 092	49 450	59 654	76 346	80 170	80 250
Foreign balance	–12 684	–24 443	–29 902	–37 851	–24 670	–13 999	–13 213	–4 003	3 471	7 112	27
Exports of goods and services	65 198	63 176	61 647	70 837	76 148	85 279	69 505	66 439	70 739	76 398	74 717
Imports of goods and services	77 882	87 619	91 549	108 688	100 818	99 278	82 718	70 442	67 268	69 286	74 690
Statistical discrepancy	8 664	9 706	17 036	21 705	6 987	10 871	21 747	12 601	6 925	3 957	12 255
Social product	301 191	325 321	347 799	372 317	380 684	386 397	389 041	384 265	391 836	393 742	407 748

1. Preliminary data.

Source: Direct communication to the OECD.

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

Millions of dinars, current prices

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
Consumers' expenditure on goods and services	428 950	528 400	672 125	881 140	1 226 437	1 623 803	2 242 940	3 389 150	5 950 700	11 782 386
Government current expenditure on goods and services	147 500	177 200	227 500	290 967	380 850	499 580	642 950	931 560	1 665 900	3 347 818
Gross fixed capital formation	267 956	357 314	447 581	545 665	684 961	854 816	1 029 530	1 458 400	2 608 800	5 047 000
Change in stocks	58 222	53 931	90 940	185 546	297 705	372 602	630 959	1 232 526	2 092 800	3 948 900
Exports of goods and services	127 857	146 931	200 735	369 232	446 465	599 956	851 298	1 703 769	2 637 497	3 762 675
less: Imports of goods and services	190 315	222 924	329 194	522 522	569 860	743 990	950 262	1 863 638	2 773 801	3 929 858
Statistical discrepancy	–4 870	–28 133	–15 751	–26 330	–56 313	–48 059	–164 550	–198 305	–230 596	–559 121
Gross domestic product at market prices	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	23 399 800
Income from the rest of the world	43 401	61 960	75 259	126 863	161 807	212 219	228 621	462 258	654 221	918 183
Income payments to the rest of the world	6 987	8 889	16 359	36 118	58 886	87 947	112 281	239 492	363 229	497 845
Gross national product at market prices	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	23 820 138
Indirect taxes	105 300	123 172	163 085	195 332	269 014	339 970	508 213	771 134	1 192 950	2 363 749
Subsidies	26 100	26 400	34 233	42 894	50 711	79 430	108 893	171 742	316 469	616 830
Gross national product at factor cost	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	22 073 219
Depreciation and funds for other purposes	83 600	102 717	128 507	174 746	236 125	374 535	529 490	779 347	1 325 400	2 491 800
Net national product at factor cost	708 914	866 301	1 095 477	1 487 259	2 058 738	2 647 905	3 470 395	5 497 492	10 040 411	19 581 419

1. Preliminary data.

Source: Direct communication to the OECD.

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

Millions of dinars, current prices

	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
Agriculture, forestry and fishing	112 636	146 842	201 025	304 192	435 433	620 108	896 050	1 375 569	2 899 100
Mining and quarrying	19 679	24 315	38 544	56 919	77 204	103 807	199 820	335 579	513 820
Manufacturing	271 936	343 933	481 113	699 372	917 860	1 264 434	2 064 800	4 125 352	7 620 955
Electricity, gas and water	24 548	31 533	45 030	59 839	79 156	91 450	144 850	263 840	564 588
Construction	100 024	128 446	167 770	226 019	271 590	322 193	446 900	819 688	1 588 854
Transports and communication	73 723	97 013	127 239	176 500	227 570	309 906	469 100	890 146	1 735 021
Wholesale and retail trade	111 241	145 390	195 237	264 400	358 622	503 377	774 200	1 305 479	2 610 290
Banking, insurance, real estate and business and financial services	36 557	43 932	59 881	80 242	107 906	134 395	220 150	420 454	889 945
Community, social and personal services	165 603	203 680	255 421	324 459	422 827	533 875	838 200	1 538 712	3 230 308
Other services	–	–	–	–	–	–	–	–	–
Gross domestic product at factor cost	915 947	1 165 084	1 571 260	2 191 942	2 898 168	3 883 545	6 054 070	11 074 819	21 652 881
Net payment of income payable to factors of production by the rest of the world	53 071	58 900	90 745	102 921	124 272	116 340	222 766	290 992	420 338
Gross national product at factor cost	969 018	1 223 984	1 662 005	2 294 863	3 022 440	3 999 885	6 276 836	11 365 811	22 073 219

1. Preliminary data.

Source: Direct communication to the OECD.

Table D. **Gross fixed investment**

Millions of dinars, current prices

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
Total	163 200	207 300	268 000	357 300	447 600	545 600	685 000	854 800	1 029 500	1 458 400	2 608 800	5 047 000
Private sector	30 900	36 300	45 700	53 600	71 000	88 500	121 600	166 100	209 800	292 400	466 800	950 900
Social sector	132 300	171 000	222 300	303 700	376 600	457 100	563 400	688 700	819 700	1 166 000	2 142 000	4 096 100
By activity:												
Productive	114 200	146 600	192 500	260 800	319 600	386 300	485 700	603 000	740 100	1 049 500	1 929 800	3 653 800
Non-productive	49 000	60 700	75 500	96 500	128 000	159 300	199 300	251 800	289 400	408 900	679 000	1 393 200
By industry:												
Agriculture and forestry	12 100	14 700	20 800	26 000	31 500	36 700	51 200	81 800	106 200	145 500	231 500	411 600
Industry	64 000	80 700	98 000	136 000	157 800	199 600	254 600	305 700	376 300	540 500	998 500	1 889 700
Building	4 000	4 800	9 300	10 900	13 800	14 400	19 300	19 900	22 700	29 400	71 600	121 100
Transportation	21 000	27 700	37 000	52 000	65 900	72 900	81 200	94 100	124 600	160 800	309 900	551 500
Trade, catering, tourism	9 400	10 400	15 900	20 000	28 890	32 200	40 500	49 600	49 600	72 200	133 000	317 600
Housing, communal activities	39 000	48 700	59 800	77 000	103 600	134 200	172 500	231 200	268 000	368 500	576 800	1 174 100
Other social sector	13 700	20 300	27 200	35 400	46 110	55 600	65 700	72 500	82 100	141 500	287 500	581 400
By sector of asset:												
Machines and equipment	66 730	86 100	110 900	139 600	167 900	191 600	232 800	296 000	378 600	584 500	1 165 300	2 212 100
Domestic	35 530	50 200	64 900	85 600	109 000	125 500	163 700	206 000	266 000	407 600	784 100	1 575 100
Imported	31 200	35 900	46 000	54 000	58 900	66 100	69 100	90 000	112 600	176 900	381 200	637 000
Building	88 960	110 700	141 300	194 800	249 800	309 400	386 700	479 800	538 600	744 300	1 259 400	2 531 400
Other	7 510	10 500	15 800	22 900	29 900	44 600	65 500	79 000	112 300	129 600	184 100	303 500

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

	1978	1979	1980	1981	1982	1983	1984	1985	1986[1]
National income:									
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	372 218	470 796	595 765	878 339	1 154 857	1 558 785	2 273 554	4 014 300	8 334 200
Tax on income and Social Security payments	171 856	206 920	260 005	349 405	454 694	616 306	958 200	1 823 900	4 190 200
Interest and enterprise taxes	168 429	236 384	306 652	429 382	574 917	887 762	1 440 200	2 757 900	5 559 500
Accumulation of productive enterprises and individual producers	100 420	139 903	238 143	346 763	411 303	536 180	965 346	1 524 500	1 825 900
National income	812 923	1 054 003	1 400 565	2 003 889	2 595 771	3 599 033	5 637 300	10 120 600	19 909 800
plus : Depreciation	88 892	111 414	152 524	204 361	329 023	465 256	688 500	1 164 100	2 144 900
Social product	901 815	1 165 417	1 553 089	2 208 250	2 924 794	4 064 289	6 325 800	11 284 700	22 054 700
Household account:									
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	372 218	470 796	595 765	878 339	1 154 857	1 558 785	2 273 554	4 014 300	8 334 200
Net wages and salaries of employees in non-productive enterprises	93 567	117 863	150 507	191 314	247 609	318 109	459 986	828 600	1 723 800
Receipts from Social Security and other welfare funds	99 600	127 190	158 549	209 138	284 523	377 101	534 599	961 300	2 278 200
Bank interest (net)	12 709	16 741	21 883	29 292	43 458	85 819	164 369	458 700	831 600
Other domestic transfer receipts	1 990	–3 178	5 632	3 708	67 564	409 205	520 044	1 431 000	2 499 900
Net transfers from abroad	58 583	71 022	120 475	149 768	198 968	213 785	427 848	600 900	860 500
Total income received	638 667	800 434	1 052 811	1 461 559	1 996 979	2 962 804	4 380 400	8 294 800	16 528 200
Consumers' expenditure on goods and services of productive sector	447 710	572 842	753 590	1 045 441	1 377 769	1 889 278	2 917 200	5 171 200	10 320 200
Consumption of self-produced commodities	39 490	49 605	65 239	97 859	132 893	198 510	286 002	488 200	885 700
Consumer payments to non-productive sector	50 431	64 447	82 152	105 767	140 435	190 484	283 529	470 800	920 900
Savings	101 036	113 540	151 830	212 492	345 882	684 532	893 669	2 164 600	4 401 400
Savings ratio (in %)	15.8	14.2	14.4	14.5	17.3	23.1	20.5	26.1	26.6

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

Table F. **Agriculture**

	Unit or base	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[2]
Indices of agricultural output	1951-1955 = 100													
Total		203	217	227	213	225	225	228	244	240	244	226	252	233
Crop production		193	205	212	186	205	204	206	227	221	225	204	235	201
Livestock production		235	244	263	268	270	273	279	293	284	293	283	190	195
Production of selected commodities														
Wheat	Mill. metric tons	4.4	6.0	5.6	5.4	4.5	5.1	4.3	5.2	5.5	5.6	4.8	4.8	5.3
Maize	–	9.4	9.1	9.9	7.6	10.1	9.3	9.8	11.1	10.7	11.3	9.9	12.5	8.9
Sugar beet	–	4.2	4.7	5.3	5.2	5.9	5.2	6.2	5.7	5.7	6.8	6.3	5.6	6.2
Meat	Thous. metric tons	1 031	1 034	1 144	1 237	1 227	1 207	1 221	1 244	1 280	1 369	1 292	1 285	. .
Forestry cuttings	Mill. cubic metres	18.6	18.5	19.5	19.7	19.9	19.4	20.4	21.1	21.3	22.6	22.4	22.8	. .
Number of tractors in use[1]	Thousand	225.5	260.9	296.8	342.0	385.1	415.7	595.5	622.4	705.8	808.5	881.7	955.3	. .
Consumption of fertilizers	Thous. metric tons	1 964	1 970	2 056	2 147	2 203	2 131	2 384	2 510	2 460	2 556	2 551	2 643	. .

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	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Indices of industrial production	1970 = 100													
Total	Original base	147	152	167	181	195	204	212	212	215	227	233	242	243
Mining	1985 = 100	130	133	139	143	148	153	158	162	164	168	177	179	181
Manufacturing		149	154	168	184	200	208	218	217	219	231	237	244	245
Basic metals		157	158	171	188	196	199	214	211	223	240	252	255	247
Metal products		154	157	175	199	219	226	237	238	235	245	256	265	259
Chemicals		178	182	206	234	251	275	301	299	327	301	309	329	341
Textiles		142	145	152	158	172	182	189	187	189	201	208	221	231
Food, drinks, tobacco		137	147	160	173	187	189	195	199	199	207	203	208	213
Output of selected commodities														
Electricity	Billion kWh	40.0	43.6	48.6	51.3	55.0	59.4	60.4	62.1	67.6	73.0	74.4	77.9	80.8
Lignite and brown coal	Mill. metric tons	35.0	36.3	38.6	39.2	41.7	46.6	51.5	54.2	59.0	64.7	69.1	69.5	71.8
Petroleum products[1]	–	10.9	11.7	13.8	14.2	15.8	15.2	13.4	13.6	13.4	13.9	13.1	15.1	. .
Copper ore	–	14.6	17.4	17.5	17.1	16.4	19.6	18.3	19.7	23.4	25.3	26.2	27.9	27.7
Lead ore	Thous. metric tons	127	122	130	124	130	121	119	113	114	114	115	117	107
Zinc ore	–	103	107	112	104	102	95	89	70	87	86	89	95	87
Crude steel	Mill. metric tons	2.9	2.8	3.2	3.5	3.5	3.6	4.0	3.9	4.1	4.2	4.4	4.5	4.4
Cement	–	7.1	7.6	8.0	8.7	9.1	9.3	9.8	9.7	9.6	9.3	9.0	9.1	9.0
Metal and wood-working machines	Thous. metric tons	17.1	20.5	28.6	31.9	37.5	46.4	46.3	49.3	50.3	42.4	42.5	49.1	53.7
Building machines	–	34.6	38.4	47.1	67.8	82.6	71.4	71.3	63.3	48.0	80.7	92.7	99.8	87.7
Rotating machines	–	39.8	30.1	34.9	40.6	44.1	43.6	47.3	49.2	42.8	49.1	58.6	57.3	56.9
Pulp and cellulose	–	527	495	584	612	608	606	642	659	681	715	707	713	678
Cotton fabrics	Mill. sq. meters	376	385	384	410	418	385	377	372	379	318	344	358	366

1. Crude petroleum and refined.

Source: Direct communication to the OECD.

Table H. **Labour force and employment**

Thousands

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Active population (mid-year estimate)[1]	9 173	9 270	9 367	9 466	9 565	9 666	9 768	9 870	9 974	10 079	10 270	10 398	. .
Paid employment	4 514	4 758	4 925	5 148	5 383	5 615	5 798	5 966	6 105	6 223	6 355	6 516	6 716
Registered unemployment	449	540	635	700	735	762	785	809	862	910	975	1 040	1 087
Other labour force[1]	4 210	3 972	3 807	3 618	3 447	3 289	3 185	3 095	3 007	2 946	2 940	2 842	. .
Worker emigration (net)[2]	1 035	940	870	825	800	790	770	770	760	740	780	710	768
Yugoslav workers employed in Germany[3]	470	410	390	375	360	360	350	336	320	310	320	350	320
Paid domestic employment by sector:													
Social sector[4]	4 423	4 667	4 833	5 052	5 280	5 506	5 681	5 846	5 980	6 097	6 224	6 378	6 566
Productive activities	3 671	3 876	4 004	4 182	4 364	4 560	4 709	4 848	4 955	5 052	5 162	5 294	5 452
Non-productive activities	752	791	829	870	916	946	972	998	1 025	1 045	1 062	1 084	1 114
Private sector (excluding agriculture)	91	91	92	96	103	109	117	120	125	126	131	138	150
Paid domestic employment by industry[4]:													
Agriculture	168	176	178	179	183	188	191	200	210	218	226	231	239
Industry	1 726	1 819	1 874	1 954	2 022	2 102	2 162	2 242	2 313	2 374	2 445	2 529	2 625
Construction	444	479	500	531	567	602	622	622	612	599	592	583	586
Transportation and communication	329	346	357	372	381	387	399	408	416	422	480	440	452
Trade	452	476	494	507	529	558	582	596	607	621	631	641	656

1. Including Yugoslav workers temporarily employed abroad.
2. According to the Federal Bureau of Employment, estimates.
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 1. **Prices and wages**

Indices, 1969 = 100

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Agricultural producer prices	291	333	373	417	524	709	1 087	1 471	2 174	3 137	5 019	9 091	18 273[1]
Industrial producer prices	250	266	291	315	357	455	658	820	1 082	1 704	3 076	5 331	10 484
Materials	285	301	328	354	410	550	793	1 009	1 352	2 186	4 056	6 392	11 950
Capital goods	191	216	236	250	265	297	372	430	524	744	1 339	2 432	4 968
Consumer goods	227	239	265	291	323	391	562	701	921	1 412	2 442	4 554	9 673
Export unit values, in dollars	208	217	244	266	305	364	395	424	423	696	741	741	752
Import unit values, in dollars	218	224	255	267	319	381	421	430	430	562	587	537	538
Cost of living	268	299	345	394	474	617	870	1 149	1 613	2 500	4 287	8 107	17 860
of which:													
Food	273	312	369	425	503	661	946	1 309	1 907	2 831	4 860	9 067	19 173
Services	231	260	295	338	407	490	623	762	1 000	1 398	2 438	4 754	11 319
Wage per person employed in social sector	309	357	424	513	617	744	995	1 267	1 602	2 304	4 107	8 553	..

1. Estimation based on the first 11 months.

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

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Total short-term operations	397.8	494.3	870.6	1 356.4	1 981.4	3 589.6	5 962.1	10 535.2	19 129.2	75 273.6
Gold and foreign exchange	56.7	34.0	75.7	133.1	133.7	292.8	615.0	1 029.6	1 273.1	2 517.7
Foreign exchange receivables	8.7	10.3	51.2	147.2	284.6	520.8	868.0	1 157.9	2 055.0	5 387.0
Loans to organizations of associated labour performing economic activities	176.2	233.0	307.9	474.6	612.6	833.0	1 423.9	2 446.9	4 028.3	9 026.1
Loans to the Federal government and to other public institutions	14.3	14.7	17.4	24.3	37.2	31.1	27.9	42.3	190.0	495.1
Loans to households	4.8	5.8	7.7	11.8	10.9	11.1	14.6	23.3	55.4	105.8
Other assets[2]	137.1	196.5	410.7	565.4	902.4	1 900.8	3 012.7	5 835.2	11 527.4	57 741.9
Total long-term operations	778.1	968.0	1 241.9	1 425.2	1 764.2	2 376.2	3 503.5	5 109.0	8 274.6	18 302.3
Foreign exchange receivables from the rest of the world	10.0	13.6	20.7	25.8	32.2	48.1	69.9	108.6	157.5	357.0
Loans to organizations of associated labour performing economic activities	454.9	571.0	733.7	812.5	1 013.9	1 508.5	2 389.8	3 639.3	6 031.0	14 849.2
Loans to the Federal government and to other public institutions	101.9	120.1	137.2	147.6	154.6	178.8	190.4	212.0	334.6	918.2
Loans to households	48.0	53.2	57.3	63.3	91.3	106.5	171.8	251.1	247.4	210.2
Loans for housing construction	97.0	136.0	193.2	253.8	307.7	325.6	377.4	477.8	863.7	1 039.6
Other assets[3]	66.3	74.1	99.8	122.2	164.5	208.7	304.2	420.2	640.4	928.1
Total assets[5]	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8	9 465.6	15 756.4	27 638.6	94 308.8
Total short-term liabilities	698.6	860.5	1 268.8	1 696.0	2 264.1	3 382.8	5 340.4	8 900.9	16 001.6	64 012.2
Foreign exchange liabilities	111.0	157.3	321.5	477.3	645.4	1 152.7	1 816.8	2 580.7	4 128.3	11 236.3
Money supply	315.3	375.1	461.6	584.3	740.0	888.7	1 272.0	1 863.5	3 895.9	7 786.1
Other and restricted deposits	155.2	195.7	254.7	329.8	509.0	597.1	1 028.9	1 827.1	3 126.8	5 020.9
Other[4]	117.1	132.4	231.0	304.6	369.7	744.3	1 222.7	2 629.6	4 850.6	39 968.9
Total long-term operations	419.4	536.4	769.7	998.9	1 376.9	2 457.5	3 961.6	6 611.6	11 146.2	29 228.5
Foreign exchange liabilities	144.6	197.1	349.6	512.1	783.3	1 715.7	2 961.8	5 083.7	8 544.2	25 112.3
Time deposits	105.2	132.1	163.1	208.4	252.4	298.3	459.3	708.2	1 350.7	2 201.5
Loans	169.6	207.2	257.0	278.4	341.2	443.5	540.5	819.7	1 251.3	1 914.7
Funds	57.9	65.4	74.0	86.7	104.6	125.5	163.6	243.9	490.8	1 068.1
Total liabilities	1 175.9	1 462.3	2 112.5	2 781.6	3 745.6	5 965.8	9 465.6	15 756.4	27 638.6	94 308.8[5]

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.
5. Because of the big exchange rate changes, high inflation and changes in the rules regarding depreciation the subtotals do not add to total assets in the last three years.

Source: National Bank of Yugoslavia.

Table K. **Imports and exports by commodity groups**[1]

Millions of US dollars

		1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[1]
SITC SECTIONS														
	Imports													
0. and 1.	Food, drink and tobacco	420	637	784	605	977	991	788	689	594	423	385	757	729
	of which: Cereals and cereal preparations	17	142	92	20	271	302	98	228	68	61	27	82	18
2.	Raw materials	739	693	940	995	1 205	1 544	1 637	1 422	1 313	1 423	1 458	1 235	1 160
	of which: Textile fibres and waste	255	248	335	348	376	415	457	424	324	439	452	372	287
3.	Mineral fuels	943	1 082	1 296	1 431	2 248	3 549	3 786	3 433	3 304	3 515	3 307	2 606	2 195
5.	Chemicals	834	791	989	1 140	1 653	1 824	2 027	1 658	1 758	1 756	1 665	1 590	2 055
6.	Semi-manufactures	1 747	1 364	1 763	1 698	2 243	2 376	2 595	2 007	1 845	1 822	1 951	1 829	2 092
	of which: Base metals	963	700	841	835	1 151	1 313	1 419	1 040	903	320	1 031	904	881
7. and 8.	Finished manufactures	2 899	2 731	3 791	4 058	5 637	4 674	4 816	4 071	3 243	2 956	3 290	3 666	4 350
	of which: Machinery	1 987	1 935	2 580	2 833	3 993	3 450	3 417	2 810	1 726	..	1 705	1 844	2 081
	Transport equipment	628	548	814	796	1 038	766	944	897	576	519	662	695	840
4. and 9.	Other	115	69	70	56	56	106	108	54	97	101	108	67	22
	Total	7 697	7 367	9 633	9 983	14 019	15 064	15 757	13 334	12 154	11 996	12 164	11 750	12 603
	Exports													
0. and 1.	Food, drink and tobacco	478	618	607	687	720	1 023	1 157	1 147	1 152	1 084	975	916	994
	of which: Live animals and meat	222	261	267	313	300	352	629	431	371	348	324	226	361
	Cereals and cereal preparations	36	103	86	80	23	108	152	113	264	205	179	242	110
2.	Raw materials	282	429	510	451	619	665	554	497	467	482	421	399	563
	of which: Wood	140	248	315	265	318	368	293	251	240	241	186	172	248
5.	Chemicals	380	353	331	469	636	1 010	1 377	1 073	960	995	1 190	1 199	1 291
6.	Semi-manufactures	1 180	1 337	1 204	1 259	1 606	1 994	2 414	2 251	2 320	2 342	2 359	2 272	3 015
	of which: Base metals	579	603	492	497	606	697	700	662	778	884	954	835	1 351
7. and 8.	Finished manufactures	1 712	2 077	2 409	2 598	2 939	3 996	5 162	5 043	4 732	6 011	5 368	5 284	5 301
	of which: Machinery	622	802	1 000	1 030	1 329	1 656	2 117	2 147	1 148	1 146	1 135	1 310	1 321
	Ships	304	287	415	421	252	317	310	323	339	503	819	497	303
3., 4. and 9.	Other	40	64	195	204	274	289	265	230	282	399	329	228	262
	Total	4 072	4 878	5 256	5 668	6 794	8 977	10 929	10 241	9 913	10 254	10 642	10 298	11 426

1. At statistical exchange rates before 1987. In 1987 at current exchange rate.
Source: Direct communication to the OECD.

Table L. **Imports and exports by area**[1]

Millions of US dollars

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987[1]
						Imports, cif					
OECD countries	5 481	5 890	8 530	7 951	8 395	6 832	5 613	5 360	5 643	5 698	7 240
EEC	3 806	3 829	5 794	5 219	5 588	4 486	3 691	3 567	3 694	3 860	5 039
Italy	1 029	827	1 146	1 117	1 291	1 023	980	964	1 028	967	1 294
Germany	1 571	1 801	2 888	2 500	2 243	1 858	1 624	1 578	1 587	1 717	2 303
United States	546	615	1 059	1 015	957	846	775	620	778	673	716
Other	1 129	1 446	1 677	1 717	1 850	1 500	1 147	405	1 171	1 165	1 485
Centrally planned economies[2]	2 781	2 498	3 566	4 535	4 961	4 621	4 491	3 925	3 926	3 838	3 801
of which: USSR	1 301	1 375	1 793	2 698	2 966	2 737	2 463	1 964	1 977	1 874	1 926
Developing countries:	1 371	1 595	1 923	2 578	2 401	1 881	2 050	2 711	2 594	2 214	1 562
In Africa	323	397	570	936	1 126	833	187	168	141	182	154
In America	327	222	308	468	357	221	182	184	196	346	274
In Far-East	164	440	185	247	252	350	929	1 127	1 383	837	648
In Middle-East	555	536	860	927	666	477	752	1 232	874	848	485
In Europe									1.5	1.1	0.7
Total	9 633	9 983	14 019	15 064	15 757	13 334	12 154	11 996	12 164	11 750	12 603
						Exports, fob					
OECD countries	2 101	2 437	2 988	3 348	3 501	2 883	3 307	3 746	3 735	3 749	5 726
EEC	1 395	1 305	2 083	2 368	2 531	2 091	2 357	2 639	2 617	2 600	3 980
Italy	664	531	716	833	1 012	781	806	841	977	909	1 490
Germany	390	472	739	778	867	720	807	892	871	889	1 330
United States	297	371	373	393	387	311	346	432	463	565	733
Other	409	761	532	587	583	481	604	674	655	584	1 013
Centrally planned economies[2]	2 109	2 180	2 747	4 149	5 433	5 228	4 630	4 820	5 388	5 016	4 040
of which: USSR	1 138	1 394	1 401	2 489	3 644	3 424	2 699	2 797	3 397	3 122	2 222
Developing countries:	1 046	1 051	1 059	1 480	1 995	2 130	1 976	1 682	1 519	1 533	1 659
In Europe	6	3	4	5	4	4	8.0	4.6	9.3	6.8	6.8
In Africa	469	467	543	735	876	883	310	213	230	144	153
In America	122	47	27	57	74	65	62	85	194	154	161
In Far-East	151	300	128	206	311	293	984	904	672	649	510
In Middle-East	298	234	357	477	730	885	612	475	414	579	828
Total	5 256	5 668	6 794	8 977	10 929	10 241	9 913	10 254	10 642	10 298	11 425

1. At statistical exchange rates before 1987. In 1987 at current exchange rate.
2. 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

	1976	1977	1978	1979	1980	1981[2]	1982	1983	1984	1985	1986
Trade balance	–2 489	–4 380	–4 317	–7 225	–6 086	–4 828	–3 093	–2 240	–1 739	–1 601	–2 012
Exports, fob	4 878	5 254	5 671	6 794	8 978	10 929	10 241	9 914	10 254	10 622	11 084
Imports, cif	–7 367	–9 634	–9 988	–14 019	–15 064	–15 757	–13 334	–12 154	–11 993	–12 223	–13 096
Services and transfers, net	2 654	2 798	3 061	3 564	3 795	4 078	2 629	2 514	2 243	2 434	3 112
Transportation	429	568	585	731	832	1 044	906	795	750	922	–1 749
Foreign travel	725	750	930	1 028	1 515	1 853	1 415	862	998	954	..
Investment income	–279	–258	–300	–633	–1 084	–1 710	–1 773	–1 532	–1 638	–1 664	–1 749
Private transfers and workers' remittances	1 415	1 427	1 745	1 710	1 539	2 042	1 268	1 167	1 789	1 651	1 636
Other services	364	311	101	728	993	849	813	1 222	344	571	..
Current Balance	165	–1 582	–1 256	–3 661	–2 291	–750	–464	274	504	833	1 100
Long-term capital, net	1 285	1 263	1 597	1 590	2 281	1 458	479	1 363	–101	11	–1 677
Loans received	1 415	1 463	1 702	1 740	2 516	1 708	679	1 519	1	100	–1 459
Loans extended	–130	–200	–105	–150	–235	–250	–200	–156	–102	–89	–218
Short-term capital, net	–	75	247	283	739	261	–506	–647	–96	–36	350
Bilateral balances (–: capital outflow)	–146	161	–65	–664	354	–770	–805	244	442	–434	–900
Errors and omissions	183	147	–52	–153	–484	–79	284	–1 344	–213	–166	1 593
Reserve movements (+: increase)	1 487	64	471	–1 277	599	120	–1 012	–110	536	208	466

1. At statistical exchange rates until 1984. Statistical rates for 1983 and 1984 were, respectively, \$1 = 63.40 dinars and \$1 = 124.80 dinars. At current exchange rates for 1985 and 1986.
2. Trade figures in this table differ from those in tables K and L. In the above table the statistical exchange rate for 1981 used by the authorities is \$1 = 41.80 dinars and in the latter tables it is \$1 = 27.30 dinars.

Sources: IMF, *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
Population													
Total	Thousands	1986	15 974	7 566	9 851	25 675	5 121	4 918	55 393	61 080	9 966	243	3 541
Inhabitants per sq.km	Number		2	90	323	3	119	14	101	246	76	2	50
Net average annual increase over previous 10 years	%		1.3	0.0	0.1	1.1	0.1	0.4	0.5	–0.1	0.9	1.0	1.1
Employment													
Total civilian employment (TCE)[2]	Thousands	1986	6 946	3 226	3 645	11 634	2 630	2 421	20 965	25 267	3 601	117	1 068
of which: Agriculture	% of TCE		6.1	7.8	2.9	5.1	5.9	11.0	7.3	5.3	28.5	10.3	15.7
Industry	% of TCE		26.8	36.1	29.7	25.3	28.2	32.0	31.3	40.9	28.1	36.8	28.7
Services	% of TCE		67.1	56.0	67.4	69.6	65.9	57.0	61.3	53.7	43.4	53.0	55.5
Gross domestic product (GDP)													
At current prices and current exchange rates	Billion US$	1986	167.3	93.8	112.2	363.9	82.5	70.5	724.2	892.0	39.8	3.9	24.5
Per capita	US$		10 473	12 403	11 377	14 174	16 130	14 326	13 077	14 611	3 987	15 984	6 914
At current prices using current PPP's[3]	Billion US$	1986	193.0	85.1	111.2	413.5	66.7	59.3	676.6	777.8	62.1	. .	24.5
Per capita	US$		12 084	11 254	11 276	16 105	13 030	12 050	12 218	12 741	6 224	. .	6 903
Average annual volume growth over previous 5 years	%	1986	2.9	1.8	1.5	2.7	3.3	3.2	1.7	1.7	1.6	2.2	1.1
Gross fixed capital formation (GFCF)	% of GDP	1986	23.3	22.4	16.1	20.2	20.3	23.1	18.8	19.5	18.5	18.3	18.7
of which: Machinery and equipment	% of GDP		11.2 (85)	9.8	5.2 (85)	6.9	9.4	9.2	9.4 (85)	8.3	7.7	5.2	11.5 (84)
Residential construction	% of GDP		5.2 (85)	4.6 (85)	3.2 (85)	6.3	4.9	5.5	4.7 (85)	5.3	4.6	3.5	4.4 (84)
Average annual volume growth over previous 5 years	%		–0.1	0.5	0.7	0.4	9.5	1.6	–0.7	0.3	–1.8	–1.3	–4.6
Gross saving ratio[4]	% of GDP	1986	18.6	24.3	18.4	18.0	16.4	22.2	19.7	23.4	15.4	17.3	17.1
General government													
Current expenditure on goods and services	% of GDP	1986	18.8	19.0	16.7	20.0	24.0	20.7	19.4	19.7	19.4	17.1	19.3
Current disbursements[5]	% of GDP	1986	35.3 (85)	45.7 (85)	52.0 (85)	43.0	53.3	38.7	49.4 (85)	42.9	42.8	26.1 (85)	49.7 (84)
Current receipts	% of GDP	1986	33.5 (85)	48.1 (85)	46.2 (85)	39.2	58.0	41.8	48.5 (85)	44.7	36.4	30.8 (85)	43.7 (85)
Net official development assistance	% of GNP	1986	0.47	0.21	0.49	0.48	0.89	0.45	0.72	0.43	. .	0.09	0.28
Indicators of living standards													
Private consumption per capita using current PPP's[3]	US$	1986	7 199	6 299	7 172	9 389	7 129	6 571	7 389	7 116	4 130	9 849 *	3 994
Passenger cars, per 1 000 inhabitants	Number	1985	. .	306 (81)	335 (84)	421 (82)	293	316	360 (83)	441 (86)	127	431	206 (83)
Telephones, per 1 000 inhabitants	Number	1985	540 (83)	460 (83)	414 (83)	664 (83)	783	615	541 (83)	641 (86)	373	525 (83)	235 (83)
Television sets, per 1 000 inhabitants	Number	1985	. .	300 (81)	303 (84)	471 (80)	392	370 (86)	297 (80)	377 (86)	158 (80)	303	181 (80)
Doctors, per 1 000 inhabitants	Number	1985	. .	1.7 (82)	2.8 (84)	1.8 (82)	2.5 (84)	2.1	2.1 (82)	2.5 (84)	2.8 (83)	2.4 (84)	1.3 (82)
Infant mortality per 1 000 live births	Number	1985	9.2 (84)	11.0	9.4	9.1 (83)	7.9	6.3	6.9	9.1	14.1	5.7	8.9
Wages and prices (average annual increase over previous 5 years)													
Wages (earnings or rates according to availability)	%	1986	7.7	5.0	4.4	5.5	6.2	11.5	8.7	3.7	–0.7	. .	13.4
Consumer prices	%	1987	7.0	3.0	3.5	4.2	4.7	5.0	4.7	1.1	19.3	25.7	5.2
Foreign trade													
Exports of goods, fob*	Million US$	1986	22 541	22 432	68 731 [7]	86 663	21 210	16 332	119 264	242 404	5 644	1 094	12 633
as % of GDP	%		13.5	23.9	58.7	23.8	25.7	23.2	16.5	27.2	14.2	28.3	51.5
average annual increase over previous 5 years	%		0.7	7.3	4.4	4.2	5.8	3.1	3.3	6.7	5.6	3.9	10.0
Imports of goods, cif*	Million US$	1986	23 919	26 721	68 617 [7]	81 314	22 820	15 334	128 757	189 678	11 339	1 117	11 613
as % of GDP	%		14.3	28.5	61.1	22.3	27.7	21.7	17.8	21.3	28.5	28.9	47.3
average annual increase over previous 5 years	%		0.1	4.9	2.1	4.1	5.4	1.5	1.3	3.1	4.9	1.6	1.8
Total official reserves[6]	Million SDR's	1986	6 202	5 778	5 724 [7]	3 348	4 116	1 528	28 579	45 626	1 357	255	2 658
As ratio of average monthly imports of goods	Ratio		3.7	3.0	1.2	0.6	2.5	1.4	3.1	3.4	1.7	3.2	3.2

	Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia
Population														
Total	57 221	121 490	370	14 572	3 279	4 169	10 230	38 688	8 370	6 573	50 923	56 763	241 596	23 270
Inhabitants per sq.km	190	326	142	429	12	13	111	77	19	159	65	232	26	90
Net average annual increase over previous 10 years	0.3	0.7	0.2	0.6	0.6	0.3	0.6	0.7	0.2	0.2	2.1	0.1	1.0	0.8
Employment														
Total civilian employment (TCE)[2]	20 614	58 530	164	5 135	1 517	2 086	4 045	10 815	4 269	3 219	15 632	24 221	109 597	. .
of which: Agriculture	10.9	8.5	3.7	4.9	10.5	7.2	21.7	16.1	4.2	6.5	55.7	2.5	3.1	. .
Industry	33.1	34.5	32.9	25.5	28.9	26.7	34.8	32.0	30.1	37.7	18.1	30.9	27.7	. .
Services	56.0	57.1	63.4	69.6	60.6	66.1	43.5	51.8	65.6	55.8	26.2	66.6	69.3	. .
Gross domestic product (GDP)														
At current prices and current exchange rates	599.9	1 955.6	5.0	175.3	27.2	69.8	29.0	229.1	131.1	135.1	58.0	547.8	4 185.5	44.2 (85)
Per capita	10 484	16 109	13 574	12 040	8 300	16 746	2 984	5 945	15 661	20 587	1 142	9 651	17 324	1 913 (85)
At current prices using current PPP's[3]	652.7	1 497.9	5.2	172.0	33.8	62.3	57.0	310.8	109.7	. .	199.7	652.7	4 185.5	. .
Per capita	11 406	12 339	14 070	11 809	10 311	14 956	5 868	8 065	13 111	. .	3 927	11 498	17 324	. .
Average annual volume growth over previous 5 years	1.9	3.6	3.5	1.6	1.8	4.1	1.6	2.1	2.1	1.6	5.5	2.6	2.9	
Gross fixed capital formation (GFCF)	20.1	27.8	20.7	19.6	21.5	27.5	21.6	19.7	18.2	24.3	23.6	17.2	17.8	21.8 (85)
of which: Machinery and equipment	7.9 (85)	10.6 (85)	9.0 (82)	10.1	13.1 (85)	7.7	14.7 (81)	16.6 (85)	8.5	8.4	9.1 (82)	8.1	7.8	. .
Residential construction	4.7 (85)	4.9 (85)	4.7 (82)	4.7	4.0 (85)	4.7	6.4 (81)	4.6 (84)	3.8	15.9 (9)	2.6 (82)	3.8	5.2	. .
Average annual volume growth over previous 5 years	0.3	3.5	–0.5	3.1	0.3	0.9	–3.7	1.4	2.1	4.0	7.6	4.4	4.4	. .
Gross saving ratio[4]	22.0	32.1	65.8	23.5	19.5	23.0	26.5	22.2	18.3	31.1	22.2	18.3	15.0	. .
General government														
Current expenditure on goods and services	16.1	9.9	15.9	15.9	16.2	19.8	14.0	13.8	27.2	12.9	8.8	21.3	18.6	13.8 (85)
Current disbursements[5]	51.9 (85)	26.9 (85)	44.6 (84)	54.0	. .	47.6	37.6 (81)	36.7	59.9	30.4	. .	44.9 (85)	35.6	. .
Current receipts	44.1 (85)	31.2 (85)	53.3 (84)	52.8	. .	56.3	33.3 (81)	35.8	61.5	35.0	. .	43.7 (85)	31.3	. .
Net official development assistance	0.40	0.29	. .	1.01	0.30	1.20	0.08	0.09	0.85	0.30	. .	0.32	0.23	. .
Indicators of living standards														
Private consumption per capita using current PPP's[3]	6 963	7 132	7 921	7 016	6 101	8 109	3 857	5 113	6 804	12 326 *	2 713	7 156	11 500	953 (85)*
Passenger cars, per 1 000 inhabitants	355 (84)	221 (83)	439 (87)	341	455	382 (86)	135 (82)	240	377	402	18 (82)	312 (83)	473 (84)	121 (83)
Telephones, per 1 000 inhabitants	448 (84)	535 (83)	425 (86)	410 (86)	646	622 (84)	166 (83)	381 (86)	890 (83)	1 334	55 (83)	521 (84)	650 (84)	122 (83)
Television sets, per 1 000 inhabitants	244 (84)	250 (80)	336 (83)	317 (86)	291	346 (86)	140 (80)	256 (82)	390	337	76 (79)	336 (84)	621 (80)	175 (83)
Doctors, per 1 000 inhabitants	3.6 (82)	1.3 (82)	1.9 (86)	2.2 (84)	2.4	2.2	1.8 (82)	3.4 (86)	2.5	1.4 (84)	1.5 (83)	0.5 (83)	2.3 (83)	1.6 (82)
Infant mortality per 1 000 live births	10.9	5.9 (84)	9.0	9.6 (86)	10.8	8.5 (86)	17.8	7.0 (84)	6.8	6.9	. .	9.4	10.6 (84)	31.7 (83)
Wages and prices (average annual increase over previous 5 years)														
Wages (earnings or rates according to availability)	12.6	3.9	. .	3.4	10.3 (85)	11.3	23.6	17.4	8.0	. .	. .	9.1	4.0	. .
Consumer prices	7.6	1.1	2.2	1.3	12.6	7.0	17.2	8.5	5.9	2.1	41.6	4.7	3.3	56.3
Foreign trade														
Exports of goods, fob*	97 479	210 807	. . [8]	80 578	5 700	18 238	7 194	27 135	37 206	37 247	7 431	107 020	217 304	7 188
as % of GDP	16.2	10.8	. .	46.0	20.6	26.1	24.8	11.9	28.4	27.6	12.8	19.5	5.2	16.3
average annual increase over previous 5 years	5.2	6.8	. .	3.3	0.7	0.3	11.7	5.8	5.4	6.7	9.3	0.7	–1.4	–3.1
Imports of goods, cif*	99 976	127 666	. .	75 424	6 130	20 291	9 443	34 922	32 490	40 865	11 122	126 161	369 961	8 196
as % of GDP	16.7	6.5	. .	43.0	22.2	29.1	32.6	15.3	24.8	30.3	19.2	23.0	8.8	18.5
average annual increase over previous 5 years	1.9	–2.2	. .	2.7	1.3	5.4	–0.6	1.7	2.4	6.0	4.5	4.2	7.2	–7.5
Total official reserves[6]	18 674	35 394	. .	10 687	4 752	10 541	1 896	12 581	5 568	20 726	1 332	15 726	39 790	1 259
As ratio of average monthly imports of goods	2.6	3.9	. .	2.0	0.9	7.3	2.8	5.1	2.4	7.1	1.7	1.8	1.5	2.2

* 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*.

22.6.88

EMPLOYMENT OPPORTUNITIES

Economics and Statistics Department

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