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Yugoslavia - Recent Economic Developments

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Basic Data

<u>Area</u>	256,000 sq. km.			
<u>Population, mid-1980</u>				
Total	22.3 million			
Of working age	14.4 million			
Workers temporarily employed abroad	770,000			
<u>Gross social product, 1980 (at current prices)</u>	Din 1,564.6 billion			
<u>GNP per capita, 1980</u>	US\$2,260			
<u>Sector share in gross social product, 1980 (in per cent; at current prices)</u>				
Agriculture	12.2			
Industry	36.3			
Construction	10.6			
Services	40.9			
<u>Net income per employee in the socialized sector, 1980</u>	Din 88,416 (US\$3,550)			
	1979	1980	<u>1981</u> Preliminary	<u>1982</u> Projection
<u>National accounts aggregates (increase in per cent; at constant prices)</u>				
Gross social product	7.0	2.4	2.2	2.5
Total domestic expenditure	9.2	-2.4	-0.6	0.1
Private consumption	6.0	0.3	-1.0	--
Public consumption	7.9	1.6	-0.8	-0.2
Gross fixed investment	4.6	-1.6	-4.5	-6.0
Agricultural production	5.3	-1.8	1.0	4.0
Industrial production	7.9	4.4	4.1	3.5
Construction activity	9.7	4.0	-8.0	-4.5
<u>Selected economic statistics (increase in per cent)</u>				
Retail prices	21.9	30.4	46.0	20.0
Industrial producer prices	13.2	27.3	46.0	21.0
Net income per employee (in the socialized sector)	20.5	21.5	34.0	20.0
Real wages	--	-7.0	-6.0	--
Unit labor costs in industry	14.9	19.7	33.0	20.5
Money; end of period	19.0	23.0	23.5	16.9
Quasi-money; end of period	26.0	36.4	30.0	21.4
Domestic credit; end of period	26.9	28.8	22.0	18.3
Exports; volume	1.6	11.0	3.0	8.3
Imports; volume	12.9	-10.5	-7.8	0.5

	1979	1980	1981 Preliminary	1982 Projection
<u>Public finance (in billions of dinars)</u>				
Consolidated public sector				
Revenue	470.7	587.6	...	...
Expenditure	469.8	598.3	...	...
Federal budget				
Revenue	93.6	109.4	161.3	203.9
Expenditure	97.3	129.7	163.4	201.6
<u>Balance of payments (in billions of SDRs)</u>				
Exports, f.o.b.	5.3	6.9	8.8	10.8
Imports, c.i.f.	-10.9	-11.6	-13.2	-15.5
Trade balance	-5.6	-4.7	-4.4	-4.7
Services and transfers, net	2.8	2.9	3.3	4.3
Current account balance	-2.8	-1.8	-1.1	-0.4
Net capital inflows (including errors and omissions)	1.8	1.6	0.8	-0.1
Reserve movements (increase in assets -)	1.0	0.1	0.3	0.5
Gross official reserves; end of period	1.0	1.1	1.4	1.4
<u>Selected ratios (in per cent of GSP)</u>				
Gross fixed investment	36.0	34.3	31.1	28.5
Domestic savings	37.1	39.9	39.4	39.5
Current account balance	-6.0	-3.6	-2.0	-0.8
Money supply; end of period	32.2	29.5	25.5	24.2
Quasi-money; end of period	49.4	50.2	45.6	43.3
Public sector expenditure	40.3	38.2	...	...
Federal Government expenditure	8.3	8.3	7.3	7.3
Federal Government budget balance	-0.3	-1.3	-0.1	0.1
External debt (in convertible currencies)	20.1	23.4	24.7	25.7
External debt (total)	22.6	25.9	27.2	28.2
<u>Selected ratios (in per cent of indicated variables)</u>				
Oil imports to total imports	17.4	23.6	24.0	24.5
External debt service to exports of goods and services (total)	17.2	17.0	19.8	17.1

	1979	1980	<u>1981</u> Preliminary	<u>1982</u> Projection
External debt service to exports of goods and services (con- vertible currency area)	19.3	19.9	21.9	20.5
<u>IMF, as of January 25, 1981</u>				
Quota		SDR 415.5 million		
Fund holdings of Yugoslav dinars		SDR 1,491.0 million		
Cumulative allocation of SDRs		SDR 155.2 million		
Holdings of SDRs		SDR 71.9 million		
<u>Exchange rate (January 25, 1981)</u>				
Buying rate		Din 43.3637 = US\$1		

I. Demand, Output, and Employment

1. Introduction

The rate of growth of aggregate production recorded a marked slowdown in 1980/81 after rising at a rapid rate throughout most of the 1970s (Table 1). The deceleration has been associated largely with the deliberate restraining of domestic demand, particularly with respect to fixed investment. Real final domestic demand fell by 0.3 per cent and 2.2 per cent, respectively, in 1980 and 1981 as fixed investment declined by more than 6 per cent over these two years. With the growth of real GSP (gross social product) decelerating to a lesser extent, and rising by just over 2 per cent in both 1980 and 1981, there was a substantial narrowing of the excess domestic demand that had built up in the late 1970s. The decline in the rate of economic growth has been reflected mainly in a fall in the rise in labor productivity rather than in a marked slackening in the growth of employment. In fact, the actual increase in employment in 1981 have exceeded the planned rise despite a lower-than-planned level of real economic activity.

For 1982 and the remainder of the Medium-Term Plan period (1981-85), real GSP is expected to rise at annual rates, increasing from 2.5 per cent in 1982 to about 4.0 per cent in 1985. Further substantial reductions in the rate of fixed capital formation are projected, while increases in private and public consumption expenditures are to be restrained. The achievement of modest growth rates of real GSP over the remainder of the plan period will be contingent upon the good performance of exports, which in volume terms are projected to rise at a rate of 10 per cent per annum over the years 1982-85. Employment is expected to continue to increase at a rate of just over 2 per cent per annum and be in line with the growing labor force. Agricultural production, which is projected to rise at an annual average rate of 4.7 per cent over the years 1982 to 1985 is expected to make a greater contribution to the growth of output than in previous plans.

2. Demand

All major domestic demand components rose at a rapid rate in the second half of the 1970s, with final domestic demand rising at an annual average rate of 7.8 per cent over the years 1976-79. The fast advance in domestic expenditures was spearheaded by the rise in fixed investment outlays. As a result of the sharp cutback in increases in fixed investment and private consumption, the growth of final domestic demand was halted in 1980 and sharply reversed in 1981, when this aggregate declined by 2.2 per cent. The only domestic expenditure component recording a rise in 1981 was investment in stocks as inventories accumulated because industrial production rose steadily in the face of falling domestic demand.

a. Investment

The rapid growth of fixed investment in the 1970s was widespread and increasingly placed strains on the economy's real, financial, and foreign exchange resources. As a rising proportion of the fixed capital formation resulted in a duplication of existing productive capacity, was not based on comparative advantage considerations, and was excessively capital intensive, it did not generate the desired increase in output, especially that of tradable goods. Also, in a number of large-scale projects that had been recently completed, excess capacity existed partly because of shortages of local raw materials. Another feature of the pattern of fixed capital formation during the 1970s was the increasing fragmentation of investment along regional lines. This was the result of the prevalence of negative real interest rates and regional and local considerations affecting the capital allocation process. The decline in the efficiency of investment in the 1970s was indicated by the rise in the incremental capital output ratio, which increased from 4.6 in the 1971-75 period to 5.8 in the 1976-80 period.

To deal with the excessive level of investment and channel investment funds into priority areas, the authorities, beginning in 1979 and to a greater extent in 1980, introduced a number of measures. The use of bank credit for nonpriority investment projects was sharply curtailed, while the commencement of such projects in the public sector have been banned, with the exception of some investment outlays for housing, health, and education. Also, it was required that, in the allocation of foreign credits, at least 80 per cent be distributed to priority sectors, and that rebates of customs duties on imports of certain goods not produced domestically be given when such imports were destined for priority sectors. While these measures were effective in curbing the rise in real fixed capital formation, they were less successful in reorientating fixed investment toward priority areas. The share of total fixed investment in priority sectors, such as energy, agriculture, and tourism, is estimated to have fallen in 1980 compared with the average for the previous four years (Table 2).

Thus, in the formulation of the 1981-85 Medium-Term Plan renewed efforts were made to devise policies to increase the flow of investment to priority areas. Given the fact that the Medium-Term Plan, and particularly the revised version, has been formulated at a time of rising concern about Yugoslavia's external debt servicing capabilities, external targets and constraints have had a preponderant influence on the Plan's investment targets and strategy. Accordingly, the creation of productive capacity in export-oriented activities and in import-substitute activities are given priority in the investment strategy. With reference to export-oriented activities, priority is being given to modernizing capacity in the nonferrous metals, chemicals, textiles, footwear, and furniture industries, and to expanding capacity for tourism. In the energy sector the focus of investment will continue to be on the development of domestic energy sources. It is planned to reduce imported energy as a proportion of domestic energy consumption from 44 per cent in 1979 to less than 39 per cent in 1985, largely through the development of local coal

resources and the harnessing of hydro-electrical and nuclear power. However, because of the substantial savings in domestic energy consumption over the last two years, the investment program has been scaled down. ^{1/} In the development of domestic raw materials, there will be continued emphasis on the primary phases of ferrous and nonferrous metals, some nonmetallic products, and certain basic chemicals. The revised Medium-Term Plan is characterized by some narrowing of priorities insofar as investment in the development of petrochemicals and investment of certain production materials such as cement will not be undertaken. Shipbuilding and the production of capital equipment are designated as priority sectors and are expected to improve their export performance over the plan period. In the agricultural sector, priority is being given to crop and livestock production. In the transportation sector attention is being focused on modernizing the railway system and some additional highway construction.

For large investment projects, especially those in the energy sector and in the iron and steel industries, the pooling of capital resources across republics and provinces is being strongly encouraged. With respect to policies to reduce disparities between the more developed regions (MDRs) and less developed regions (LDRs) of Yugoslavia, inter-regional resource transfers via a federal fund will continue to play an important role. Over the plan period, the MDRs are to contribute 1.83 per cent of their social product to these transfers; the least developed region, the autonomous province of Kosovo, will be specially favored in the allocations. A novel feature of the new Plan is that up to 50 per cent of the resources transferred to the federal fund can be used for the financing of joint ventures between the MDRs and the LDRs, to be located in the LDRs. In order to help alleviate the relatively high levels of unemployment in the LDRs, it is planned to increase capital formation in the development of local raw materials, especially coal, and in labor-intensive projects at a faster rate than in other regions.

Information on recent stock movements is incomplete. Using partial data, no clear trend can be discerned in investment in inventories during 1980. However, over the last year there seems to have been a marked increase in the level of stocks in the industrial sector, as production recorded sizable gains in the face of declining real domestic expenditures. By October 1981 the volume of stocks of finished goods and raw materials in the industrial sector were 8 to 9 per cent above their level of a year earlier. In recent months stocks appear to have increased at an even faster rate.

b. Private and public consumption

Private consumption, which is the largest domestic demand component, rose in real terms at an annual average rate of 5.6 per cent over the years 1970-79. The rapid growth of personal incomes in the socialized

^{1/} Whereas the original Plan envisaged crude oil imports of 14 million tons in 1985, it is now expected to be closer to 12 million tons.

sector, in particular, together with substantial increases in household receipts from transfer payments and remittances from Yugoslav workers abroad, largely accounted for the strong upward trend in private consumption. Beginning in 1979 and intensified in 1980 and 1981, the authorities took measures to restrain the growth of personal incomes (see below, pp. 20-21). These measures in conjunction with higher-than-expected rates of inflation led to a sharp deceleration in the growth of real personal incomes, that in 1980 and 1981 was manifested by significant declines in real personal incomes. In response to these developments the increase in real personal consumption was halted in 1980 and in 1981 it declined by 1 per cent. The falls in real private consumption would have been much greater in the early 1980s if household receipts had not been boosted by continued rises in workers' remittances from overseas. In addition, the rise in domestic wealth arising from the increase in the dinar value of widely held foreign exchange deposits, ^{1/} resulting from the considerable depreciation of the dinar in 1980 and 1981 probably made households less reluctant to use their savings to finance domestic spending.

Public consumption expenditures rose very rapidly over the 1970s and contributed to domestic resource strains. As part of the economic stabilization efforts in 1980 and 1981, current expenditures of the public sector were restrained. In 1981 the contribution rates levied on incomes of workers and enterprises for financing general and collective consumption were reduced and there was a resultant downward adjustment in outlays for these purposes. In the event, real public consumption rose by only 1.6 per cent in 1980 and fell by 0.8 per cent in 1981, after rising at an annual rate of 6.9 per cent over the period 1976 to 1979. It should be noted that the public consumption figures in Yugoslav national accounts comprise only nonwage expenditures of the public sector. If personal income payments in the public sector were included in public consumption, the falls in this aggregate in real terms in 1980 and 1981 would be much greater because of the very sharp declines in real wages of public sector employees.

3. Output

There has been a considerable deceleration in the output of most productive sectors in the early 1980s. Although the growth of industrial production has been substantially reduced to an annual rate of about 4.0 to 4.5 per cent, the industrial sector has continued to be one of the most dynamic areas of the economy (Table 3). With the sharp cutback in fixed capital formation, activity in the construction sector has been adversely affected, especially in 1981 when real value added fell by 8.0 per cent. Output from the agricultural sector in 1980 and 1981 was particularly disappointing and well below plan targets. In general, production from the services sectors have slowed down in line with the slackening in overall real economic activity.

^{1/} At the end of October 1981 foreign exchange deposits held by individuals amounted to Din 279 billion (about \$7.2 billion) and were estimated to be equivalent to 56 per cent of the quasi-monetary deposits of the household sector.

a. Industry

Although the growth of industrial production decelerated to 4.4 per cent in 1980, it was in line with the annual plan target. Industrial production slumped in the first two months of 1981 when shortages of production materials were encountered. However, in the following months there was a strong recovery in production. Thereafter, the persistence of weakened domestic demand conditions and mounting stocks dampened industrial activity. As the data in Table 4 indicate, the deceleration in the growth of industrial output across industries was very uneven. The divergent growth rates of the various industries are partly attributable to the development strategy being pursued by the Yugoslav authorities. In particular, the rapid growth of the coal and coal processing, nonferrous mining, chemicals, shipbuilding, and footwear industries was in large part attributable to their designation as priority activities. In contrast, the output of petroleum products has stagnated as domestic energy consumption has been curtailed; in the second half of 1981 the production of oil derivatives was affected also by shortages of imported crude oil.

The early 1980s have witnessed a considerable decline in the rate of growth of labor productivity in the industrial sector. From an average rate of growth of 4 per cent per annum over the period 1975 to 1980, labor productivity growth declined to 2.2 per cent in 1980 (Table 5) and an estimated 2.0 per cent in 1981. As the slowdown in productivity growth coincided with an acceleration in growth of personal incomes, unit labor costs rose at an increasing rate during 1980 and early 1981, with their rise in the year to the first quarter of 1981 peaking at 36 per cent. However, with the rise in personal incomes in the industrial sector being considerably less than that of enterprise incomes, this development was a major factor contributing to higher industrial profitability in 1980 and 1981.

In 1982 industrial production is projected to rise by 3.5 per cent with the coal, nonferrous mining, and metals industries and basic chemicals expected to be the leading growth industries. As in past years, the industrial sector is expected to bear the major burden of the adjustment effort. Industrial exports, which account for the bulk of merchandise exports, are projected to rise at an annual average rate of about 10 per cent in volume terms over the remainder of the plan period. Policy measures in the areas of the exchange rate, export credits, customs rebates, and export marketing are all being used to increase the competitive edge of Yugoslav manufactures in international trade. The industrial sector will also be the major focus of the import-substitution drive, which in contrast to previous plans gives emphasis to import substitution in machinery and equipment, in addition to the development of raw materials and basic industries.

b. Agriculture

The performance of the agricultural production during the last plan period 1976-80 was disappointing, particularly with respect to the crop

subsector. Over the period 1976 to 1980 agricultural production rose at an annual average rate of 1.9 per cent compared with a planned rate of increase of 4.0 per cent. Crop production increased at an annual average growth rate of 0.4 per cent as against the plan target of 4.8 per cent. In contrast, livestock production increased at the annual average rate of 3.1 per cent over the years 1976 to 1980, which was only a little below the plan target. The important factors accounting for the poor performance of the agricultural sector include organizational problems, the relatively low producer prices for wheat, the insufficiency and poor allocation of investment in the sector, and abandonment of land due to the flow of able-bodied agricultural workers to urban areas.

After stagnating in 1980, agricultural production rose by a mere 1 per cent in 1981, well below the target increase set for that year of 3.9 per cent. An estimated 16 per cent decline in wheat production was a major factor contributing to the fall in agricultural production (Table 6). The disappointing wheat harvest was due to considerable shortfalls relative to plan targets in both the area planted and average yields. After declining by 7.6 per cent in 1980, corn output is estimated to have fallen by a further 1.7 per cent in 1981 as unfavorable weather conditions adversely affected production. In 1981 considerable gains were registered in the output of sugar beet, tobacco, and potatoes, while the sunflower seed harvest was low due to some crop damage. The output of meat products rose by 6.0 per cent in 1981 in spite of the export marketing problems experienced by the beef industry.

Agricultural production is forecast to be 4 per cent higher in 1982 than in 1981. The land sown with wheat in the autumn of 1981 is in line with the plan target, and was 5 per cent higher than that cultivated in the previous year. There is also expected to be an increase in the area planted under the spring wheat and corn crops. For the remainder of the plan period agricultural production is expected to rise at an annual average rate of nearly 5 per cent. The achievement of this target and the planned turnaround in the agricultural trade balance will depend critically upon considerable increases in grain production. This in turn will be contingent upon substantial increases in yields in the small-scale farm subsector where 85 per cent of the corn and 60 per cent of the wheat are grown and where the use of fertilizers and improved seed varieties have lagged well behind planned targets.

c. Other sectors

After experiencing a boom in the 1970s, the construction sector has become one of the most depressed areas of the economy, as the reduction in fixed investment outlays had an adverse effect on domestic construction activity. Enterprises engaged in construction have tried to compensate for these unfavorable developments by increasing their work overseas and raising prices of construction. In 1982 real value added from the construction sector is projected to fall by a further 4.5 per cent.

The decline in international freight transportation and the lower volume of river transit trade caused the output from the transport and communications sector to rise by 3 per cent in 1981 compared with a planned increase of 4 per cent. In 1982 transportation output is projected to rise by 2.5 per cent. Policies for this sector aim at decreasing the share of road transportation relative to that of railway transportation and rationalizing the use of road vehicles.

Within the trade and catering sector there were diverse developments in 1981, with retail trade and catering output declining. While domestic tourism rose at a lower rate than planned, foreign tourism was higher than expected and was a major factor contributing to the 3.5 per cent increase in the output of the sector. Overnight stays by foreigners increased by 7 per cent in 1981. In 1982 the output of the trade and catering sector is expected to rise by 3.0 per cent, with the volume of foreign tourism projected to rise by 5 per cent.

Output growth in the private small-scale and services sectors has been slow. Private sector services output is estimated to have increased by 3 per cent in 1981, compared with the projected target of 5.2 per cent. It is the policy of the Government to encourage the growth of the private sector 1/ so as to create 100,000 to 150,000 jobs over the plan period. It was noted that the recent decline in the standard of living had encouraged the growth of the underground economy, which had become quite competitive with the legitimate private sector.

4. Employment

While there has been a fall in the rate of growth of employment in the early 1980s, the decline has not corresponded to the deceleration in the rate of growth of production. After rising at an annual average rate of 4 per cent in the 1970s, the rate of growth of employment in the socialized sector fell to 3.2 per cent in 1980 and to 2.4 per cent in the first eight months of 1981 (Tables 7 and 8). In 1981 the deceleration in employment growth appears to have been most pronounced in the construction and transportation sectors and in financial institutions, while employment in catering and tourism recorded the fastest growth (Table 8). Employment in private sector services is estimated to have expanded at a rate of about 2 per cent per annum over the last two years. The growth of employment in the socialized sector has been just sufficient in the last two years to halt the rapidly rising trend in the number of persons unemployed. While the net reflow of Yugoslav workers from abroad has leveled off, the population of working age has increased at an average rate of 1.1 per cent in recent years, and the urban labor force has been boosted by the steady flow (around 2 to 3 per cent per annum) of persons from the private agricultural sector and by recent

1/ While under previous legislation employment in a private establishment was limited to five persons, the present Associated Labor Act does not specify a maximum.

increases in the female work participation rate. As a result, the number of registered job seekers showed modest increases in 1980 and 1981, and in the first seven months of 1981 averaged 800,000 persons. The number of registered job seekers tends to overstate the number of persons really unemployed, which was estimated to be about 20 per cent less than the number of registered job seekers. 1/

With respect to the characteristics of registered job seekers, 55 per cent of this group were below the age of 25 years, while 68 per cent were listed on the register for the first time. An increasing number of the registered persons had secondary school education or above (the proportion doubled between 1970 and 1980 to 26 per cent). To deal with the latter problem efforts were being made to adjust educational training more closely to the manpower requirements of the Yugoslav economy.

There are marked variations in the degree of unemployment and underemployment between different regions in Yugoslavia that in part reflect differences in the stage of development of Yugoslavia's constituent republics and provinces. Regional disparities between levels of employment were reduced during the 1970s by the relatively faster growth of social sector employment in the less developed regions. However, regional imbalances in employment and underemployment remain a deeply rooted structural problem, with the rates of unemployment in Macedonia and in the autonomous province of Kosovo estimated to be over 20 per cent. The problem of absorbing unemployed persons in the LDRs into the labor force is compounded by the high rate of increase of the natural labor force; in Kosovo the available labor force is estimated to have grown at an annual average rate of 2.8 per cent over the years 1976 to 1980.

For 1982 and the remainder of the plan period, employment in the socialized sector is projected to rise at an annual average rate of 2.0 to 2.5 per cent. Employment in the socialized sector was projected to rise by 740,000 persons over the plan period, while the private non-agricultural sector was expected to employ at least another 100,000 persons. Efforts were being made to keep younger people in the agricultural sector and introduce them to farming activities, since the 1981 agricultural census had revealed that over one million persons in the sector were over 55 years of age. With respect to regional development policy, the republican and provincial medium-term plans project output and employment in the LDRs to rise at much faster rates than the Yugoslav

1/ The Yugoslav authorities said that it was quite difficult to calculate the rate of unemployment as registered job seekers included students seeking employment, landowners desiring to move to the socialized sector, employed persons seeking better jobs, and an increasing number of housewives looking for part-time employment. By the middle of 1982 it is expected that the results of a comprehensive labor survey will be available, which would provide a better indication of the number of persons genuinely unemployed.

national average over the period 1981 to 1985. These output and employment targets are to be accomplished through a relatively high rate of capital formation in the LDRs, an increasing part of which will be in more labor-intensive investment projects, such as in the processing of agricultural products.

Table 1. Yugoslavia: National Accounts, 1/ 1970-85
(Percentage change at constant prices)

	1980	1970-79 2/	1976-79 2/	1980	1981	1982	1981-85 2/
	In billions of dinars at current prices				Planned	Actual	Original Revised plan plan
Private consumption	803.0	5.6	6.7	0.3	2.5	-1.0	4.5 2.0
Public consumption 4/	136.5	5.9	6.9	1.6	0.8	-0.8	1.5 -0.4
Gross fixed capital formation	536.6	7.1	9.8	-1.6	-4.8	-4.5	1.5 -3.4
Final domestic demand	1,476.1	6.1	7.8	-0.3	-0.3	-2.2	3.1 -0.2
Export of goods and services	337.4	3.7	0.1	-8.9	7.0	2.6	8.5 8.5
Imports of goods and services	447.8	4.0	9.1	-10.0	-3.0	-7.7	1.1 1.5
Gross social product 5/	1,564.6	6.2	7.3	2.4	3.2	2.2	4.5 3.2

Sources: Data provided by the Yugoslav authorities; and staff estimates.

1/ Based on national income accounting according to the Yugoslav methodology, which excludes demand for and output from the following services: from the gross social product: social and cultural (activities), liberal profession, administrative agencies (mainly civil service), and arts and crafts rendering personal services.

2/ Annual average compound growth rates. Figures for 1970-79 are based on aggregates at constant 1972 prices, while those for 1976-79 and later years are based on aggregates at constant 1980 prices

3/ Projections for Annual Plan resolution for 1982.

4/ Includes material costs of general and collective consumption only. In particular, it excludes personal income payments.

5/ The direct estimates of gross social product are derived from the production side. The statistical discrepancy is included with the change in the level of stocks in the expenditure accounts.

Table 2. Yugoslavia: Gross Fixed Investment by Sector
(Percentage share in total)

	1976-80	1980	<u>1981</u> <u>First half</u>
Total fixed investment	100.0	100.0	100.0
Of which:			
Productive sector	<u>70.0</u>	<u>68.1</u>	<u>69.3</u>
Industry and min'ng	37.9	36.9	38.2
Agriculture and fishing	4.2	3.7	4.1
Forestry	0.8	0.5	0.8
Water management	0.5	0.9	0.6
Construction	4.6	3.7	3.6
Transportation and telecom- munications	8.5	8.7	8.1
Trade	4.1	4.1	4.0
Catering and tourism	2.4	2.4	3.2
Handicrafts	0.6	0.6	0.7
Public utilities	3.9	4.2	4.1
Financial and other services	2.5	2.4	2.0
Nonproductive sector	<u>30.0</u>	<u>31.9</u>	<u>30.7</u>
Housing	19.1	21.7	23.7
Education and culture	3.7	3.8	) 5.3
Health and social services	2.8	3.0	
Sociopolitical organizations	4.4	3.4	1.7
Memorandum item: Energy sector	12.4	11.6	11.5

Source: Data supplied by the Yugoslav authorities.

Table 3. Yugoslavia: Gross Social Product by Sector 1/

(Percentage change at constant prices)

	1980	1979	1980	1981	1981	1982
Level at current prices in billions of dinars		Actual	Plan 2/	estimate	Pro- jection	
Manufacturing and mining	568.0	7.9	4.4	4.0	4.1	3.5
Of which:						
Energy	74.0	6.5	6.4	6.0	5.7	5.7
Basic metals	49.0	3.1	2.6	3.0	4.3	3.2
Equipment and consumer durables	147.0	9.7	3.5	2.6	2.8	2.2
Nonmetallic minerals and construction materials	35.0	7.4	5.6	4.7	3.0	4.1
Chemicals	55.0	8.2	9.2	5.8	9.1	6.0
Other	208.0	8.2	3.6	4.1	3.4	3.2
Agriculture, forestry, and fishing	191.0	5.3	-1.8	3.9	1.0	4.0
Trade and catering	362.9	6.1	3.0	3.6	3.5	3.0
Construction	166.0	9.7	4.0	-2.6	-8.0	-4.5
Transport and communications	136.5	4.2	4.0	4.3	3.0	2.5
Crafts and others <u>3/</u>	<u>140.2</u>	<u>5.2</u>	<u>4.2</u>	<u>4.0</u>	<u>4.0</u>	<u>3.5</u>
Total	1,564.6	7.0	2.4	3.2	2.2	2.5

Sources: Data supplied by the Yugoslav authorities; and staff estimates

1/ Based on material product national income accounting according to Yugoslav methodology. See footnote to Table 1.

2/ According to targets in annual resolution for the realization of the Five-Year Plan in 1981.

3/ Includes public utility production.

Table 4. Yugoslavia: Changes in Industrial Output
(Percentage change over previous year)

	1977	1978	1979	1980	1981 <u>1/</u>
Total	9.4	8.6	7.9	4.4	4.1
Electric energy	12.0	5.5	7.3	8.1	5.5
Coal and lignite	4.6	1.1	6.1	11.6	11.0
Coal products	-0.5	23.2	20.1	5.7	8.0
Crude petroleum, natural gas	3.6	2.9	-0.2	0.8	1.5
Petroleum products	16.9	8.2	9.6	-1.1	--
Iron ore mining	4.5	2.4	1.2	-0.9	5.0
Iron and steel	10.0	13.5	6.6	2.8	6.0
Nonferrous ore mining	1.8	1.7	-0.6	14.1	--
Nonferrous metals	1.2	3.3	-3.7	-6.4	3.0
Processing of nonferrous metals	12.3	7.6	23.9	3.7	5.5
Nonmetallic mineral ore mining	0.8	-1.4	1.8	-0.3	6.0
Processing of nonmetallic mineral ores	8.0	11.8	8.7	2.7	6.0
Metal products	6.3	14.0	8.6	-4.4	4.5
Metal machinery	8.6	17.9	14.0	8.4	2.5
Transport equipment	12.6	10.3	1.4	4.2	-2.0
Shipbuilding	-8.0	-12.2	-21.1	18.6	10.0
Electrical machinery and appliances	16.7	15.0	1.3	0.1	3.0
Chemicals	10.7	13.4	7.2	7.3	10.0
Chemical products	17.6	14.6	9.2	15.2	8.5
Stone quarrying, sand pits	11.7	15.6	29.2	3.0	--
Construction materials	11.9	8.2	6.9	2.4	2.0
Sawmills and manufactures of wood boards	9.6	3.3	10.1	7.0	2.0
Wood and cork products	12.7	4.2	6.8	7.8	--
Paper, paper products	15.9	8.8	5.4	6.2	6.0
Textiles	9.3	1.0	1.5	-3.7	3.0
Clothing	2.0	5.5	14.0	2.0	5.0
Leather and fur	3.5	0.2	5.0	4.0	6.0
Leather footwear, and other leather goods	3.8	2.0	8.7	11.7	8.0
Rubber products	22.5	10.7	8.1	7.4	5.0
Food processing	7.9	10.1	3.3	2.0	2.0
Beverages	16.5	4.2	3.7	-2.5	5.0
Tobacco and tobacco manufactures	5.5	-3.0	6.5	-3.6	--
Printing	4.0	6.9	...	...	1.0
Miscellaneous products	11.5	9.8	...	...	5.0

Sources: Indeks; data supplied by the Yugoslav authorities; and staff estimates.

1/ Preliminary estimates.

Table 5. Yugoslavia: Production, Employment, Productivity, and Unit Labor Costs in Industry 1/

(Percentage change over corresponding period of previous year)

	1978	1979	1980	1980				1981		
				1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.
Production	8.6	7.0	4.2	5.8	3.6	2.9	4.7	2.7	5.9	6.9
Employment	3.2	3.2	2.0	2.7	2.7	2.0	1.0	2.0	3.0	2.7
Productivity 2/	5.2	4.6	2.2	3.0	0.9	0.9	3.7	0.7	2.8	4.1
Net personal incomes	20.5	20.2	22.3	12.0	20.6	22.7	27.6	36.3	33.6	32.5
Unit labor costs 3/	14.5	14.9	19.7	13.6	19.5	21.6	23.0	35.4	34.8	27.3

Sources: Indeks; data supplied by the Yugoslav authorities; and staff estimates

1/ Includes the manufacturing and mining and quarrying sectors.

2/ Computed by dividing changes in industrial production by changes in the number of employed persons; assumes no changes in the number of labor hours worked.

3/ Derived by dividing changes in net personal incomes by changes in productivity, the former being used as a proxy for labor costs.

Table 6. Yugoslavia: Agricultural Production

	1978	1979	1980	1981 I/	1978	1979	1980	1981 I/	1980	1981 I/
	Output in thousand tons				Percentage change over previous year					
Production of selected commodities										
Wheat	5,355	4,512	5,091	4,270	-4.3	-15.8	12.8	-16.1	12.8	-16.1
Corn	7,585	10,084	9,314	9,160	-23.2	32.9	-7.6	-1.7	-7.6	-1.7
Sugar beet	5,157	5,924	5,213	5,881	-2.5	14.9	-12.0	12.8	-12.0	12.8
Sunflower	539	525	302	298	12.5	-2.6	-12.5	-1.3	-12.5	-1.3
Tobacco	62	67	57	65	-11.1	8.0	-15.0	14.0	-15.0	14.0
Potatoes	2,501	2,724	2,440	2,640	-17.6	8.9	-10.5	8.2	-10.5	8.2
Meat, total	1,256	1,251	1,226	1,300	8.2	-0.4	-3.0	6.0	-3.0	6.0
Of which: Beef	(344)	(351)	(344)	(345)	(2.1)	(2.0)	(-2.0)	(0.3)	(-2.0)	(0.3)
Pork	(499)	(473)	(461)	(505)	(10.9)	(-5.3)	(-2.6)	(6.8)	(-2.6)	(6.8)
Milk (in millions of liters)	4,148	4,300	4,352	4,430	1.5	3.7	1.2	1.8	1.2	1.8
Eggs (in millions)	4,062	4,265	4,394	4,550	0.5	5.0	3.0	3.6	3.0	3.6
(Indices (1977 = 100))										
Agricultural production, total	94	100	100	101	-6.0	6.0	--	1.0	--	1.0
Of which: Crop production	87	96	93	90	-13.0	10.0	-3.0	-3.0	-3.0	-3.0
Fruit growing	91	94	109	109	-9.0	3.0	16.0	--	16.0	--
Viticulture	89	109	130	128	-11.0	22.0	20.0	-2.0	20.0	-2.0
Livestock breeding	102	103	104	108	2.0	1.0	1.0	4.0	1.0	4.0

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

I/ Preliminary estimates.

Table 7. Yugoslavia: Employment Indicators, 1970-80

	1970	1973	1975	1979	1980	1970-75	1975-80	1980
	Yearly average in thousands					Annual average percentage change		
1. Employed in socialized sector	3,765	4,213	4,667	5,506	5,681	4.4	4.0	3.2
2. Employed in nonagricultural sector	300	342	363	391	405	2.7	2.2	3.6
3. Active agricultural population	4,300	4,056	3,851	3,525	3,430	-1.1	-2.3	-2.7
4. Employed abroad	850	1,100	940	775	770	0.2	-3.9	-0.6
5. Registered jobseekers ^{1/}	320	382	540	765	785	11.0	7.8	2.6
6. Labor force (1 + 2 + 3 + 4 + 5)	<u>9,535</u>	<u>10,093</u>	<u>10,361</u>	<u>10,974</u>	<u>11,071</u>	<u>2.7</u>	<u>1.3</u>	<u>0.9</u>
7. Ratio of jobseekers to total labor force; in per cent	3.4	3.8	5.2	7.0	7.1	...	...	...

Source: Data supplied by the Yugoslav authorities.

^{1/} This series overestimates the number of unemployed (Chapter I, section 4).

Table 8. Yugoslavia: Employment by Sector

	1980		1977	1978	1979	1980	1981
	In thousands	In per cent of total					
				Percentage change over previous year			
Economic							
Manufacturing, mining, and quarrying	2,162	38.06	4.27	3.48	3.96	2.85	2.97
Agriculture	191	3.36	--	2.81	2.73	1.60	2.67
Forestry	62	1.09	-1.54	-1.56	-1.59	--	1.46
Irrigation	17	0.30	14.29	6.25	--	--	2.91
Construction	622	10.95	6.20	7.16	5.99	3.32	0.19
Transportation and communications	399	7.02	4.20	2.42	1.57	3.10	1.43
Trade	582	10.25	2.63	4.34	5.48	4.30	2.82
Catering and tourism	201	3.54	7.27	5.08	4.30	3.61	4.20
Handicrafts	167	2.94	6.11	9.35	4.61	5.03	2.78
Public utilities	109	1.92	4.30	5.15	3.92	2.83	2.68
Financial institutions	197	3.47	8.96	11.64	12.88	7.07	1.78
Noneconomic							
Education and culture	402	7.08	2.45	2.93	2.07	1.77	1.52
Health and welfare	312	5.49	4.74	7.17	5.63	4.00	3.67
Sociopolitical communities and organizations	257	4.52	9.05	6.99	2.45	2.39	2.42
Total	5,680	100.00	4.49	4.55	4.24	3.16	2.42

Sources: Statistical Yearbook of Yugoslavia; and Indeks.

II. Prices and Incomes

The Yugoslav economy experienced increases of domestic prices and incomes well into double digits per cent for most of the 1970s. In the ten years from 1970 to 1980 consumer prices increased at an annual average rate of 18.6 per cent while personal incomes rose at an annual rate of 19.7 per cent. In common with most other countries and in line with developments in world oil and commodity prices, domestic price increases accelerated in the years 1973 to 1975, abated in the years 1976 to 1978, and resurged in the years 1979 and 1980 (Chart 1). However, whereas the 12-monthly rate of inflation moderated in most European countries from the second quarter of 1980 onward, in Yugoslavia inflationary pressures recorded a strong rise, at least up to the middle months of 1981 (Chart 2).

It is difficult to disentangle the basic causes of these inflationary pressures in the 1970s since inflation occurred in an environment characterized by rapid increases in bank credit and the money supply, by the persistence of excess domestic demand, and by strong rises in unit labor costs. Also, in the period up to the introduction of stricter price limits in June 1981, the price system contained much flexible administrative pricing whereby cost and demand factors could be used to justify increases in prices. Also, given that prices of industrial goods tended to be based on the cost markup principle, strong rises in unit labor costs were given ample scope for imparting an inflationary bias into the Yugoslav system, while the degree of markups above cost could reflect the intensity of demand, price regulations, and the ability of enterprises to improve their financial position.

There was a sharp acceleration in increases in prices and incomes in the second half of 1980 and in the early months of 1981. The 12-monthly rate of increase of the retail price index rose from 28 per cent in June 1980 to 39 per cent in December 1980 and further to a peak of 52 per cent in May 1981. Other domestic prices and nominal personal incomes showed a similar pattern of development, with the yearly increase in net personal incomes in the socialized sector peaking at 34 per cent in the second quarter of 1981. In June 1981 the authorities introduced stricter limits on price increases so as to contain increases in prices of goods and services to 7 per cent and 5 per cent, respectively, for the remainder of the year. Although the price targets for the second half of 1981 were exceeded, the price limits in conjunction with continued demand and incomes restraints helped moderate inflationary pressures. At the end of 1981, the 12-monthly rates of increase in the retail price and the industrial producer price indices were 39 per cent and 35 per cent, respectively (Table 9).

1. Price developments in 1980 and 1981

The rate of increase of domestic prices tended to rise through most of 1980 with the pace quickening in the second part of the year (Table 10). This acceleration was attributable to a number of factors. Firstly, during 1980 there was a substantial increase in import prices in dinar

terms resulting from higher import prices in foreign currencies and from the substantial depreciation of the dinar. In U.S. dollar terms import prices rose on average by 20 per cent in 1980, while the Yugoslav dinar depreciated by 35 per cent vis-à-vis the U.S. dollar during the course of the year. On June 6, 1980 there was a discrete depreciation of the dinar of 23 per cent. Using an input/output analysis, the Yugoslav authorities had estimated that about 40 per cent of the increase in the industrial producer price index occurring in 1980 was due to external factors. 1/ Secondly, there were a number of administered price increases, including major price adjustments to stimulate agricultural and domestic energy production and to conserve the use of oil products. Thirdly, despite the easing of aggregate excess domestic demand, the existence of excess demand in certain sectors (e.g., wood products) drove up prices. Fourthly, the prices of a considerable number of products, including household durables, were freed from administrative limits and were allowed to be determined by market forces from October 1980 onward. Enterprises took advantage of this situation and raised prices of decontrolled items substantially.

The momentum of rapid increases in prices was carried over into 1981 and was exacerbated by uncertainties at the beginning of 1981 on price targets for the year and the criteria to be used in justifying price increases. Industrial producer prices rose by 9 per cent in January 1981 2/ as many enterprises engaged in anticipatory price increases, so that they could raise profit margins above the levels that they expected would be implicit formal price agreements for 1981. This practice was facilitated because it was only in March 1981 that both the criteria for justifying price increases and the official price targets and guidelines on price policy were specified. 3/ Higher turnover tax rates contributed also to the upward pressure on prices in the initial months of 1981.

The official price targets introduced in March 1981 aimed at limiting the increase in the retail price index to 32 per cent over the 12 months to December 1981, and that of the industrial producer price index to 30 per cent. However, prices continued to rise at excessively rapid rates in the following months and the authorities on June 18 enacted legislation placing stricter limits on price increases for the remainder of the year. In the final six months of 1981 average price

1/ Apart from exchange rate changes and increases in foreign currency import prices, external factors in the analysis included the impact of foreign-determined prices on administered domestic prices. For example, the price of copper in Yugoslavia is adjusted in accordance with its price on the London metal market.

2/ The large increase in the industrial producer price index in January 1981 arose partly because some of the price increases that had taken place in late 1980 were only reported to the price authorities in January.

3/ The Yugoslav price system was described in EBS/81/170 (8/17/81), pp. 39-40.

increases for goods were to be limited to 7 per cent and those for services to 5 per cent. The March 1981 agreement on price policy required also that republican and provincial governments provide subsidies to households to cover part of the rise in prices of basic foodstuffs (milk, bread, meat, and poultry).

In the third quarter of 1981 domestic price increases were lower with the average monthly increases (seasonally adjusted) in industrial producer prices falling to 1.1 per cent compared with 5.1 per cent in the first quarter and 2.5 per cent in the second quarter of 1981. In the third quarter of 1981 retail prices (seasonally adjusted) rose at an average monthly rate of 1.6 per cent compared with 5.1 per cent in the first quarter of 1981. Retail and industrial producer prices increased by 3.7 per cent and 3.4 per cent, respectively, in October 1981 in part as a result of the phasing out of food subsidies and upward adjustments in electrical energy and edible oil prices. However, in the final two months of the year the moderation of domestic price increases continued with the 12-monthly rates of increase of the retail price and industrial producer price indices falling to 39 per cent and 35 per cent, respectively, by December 1981.

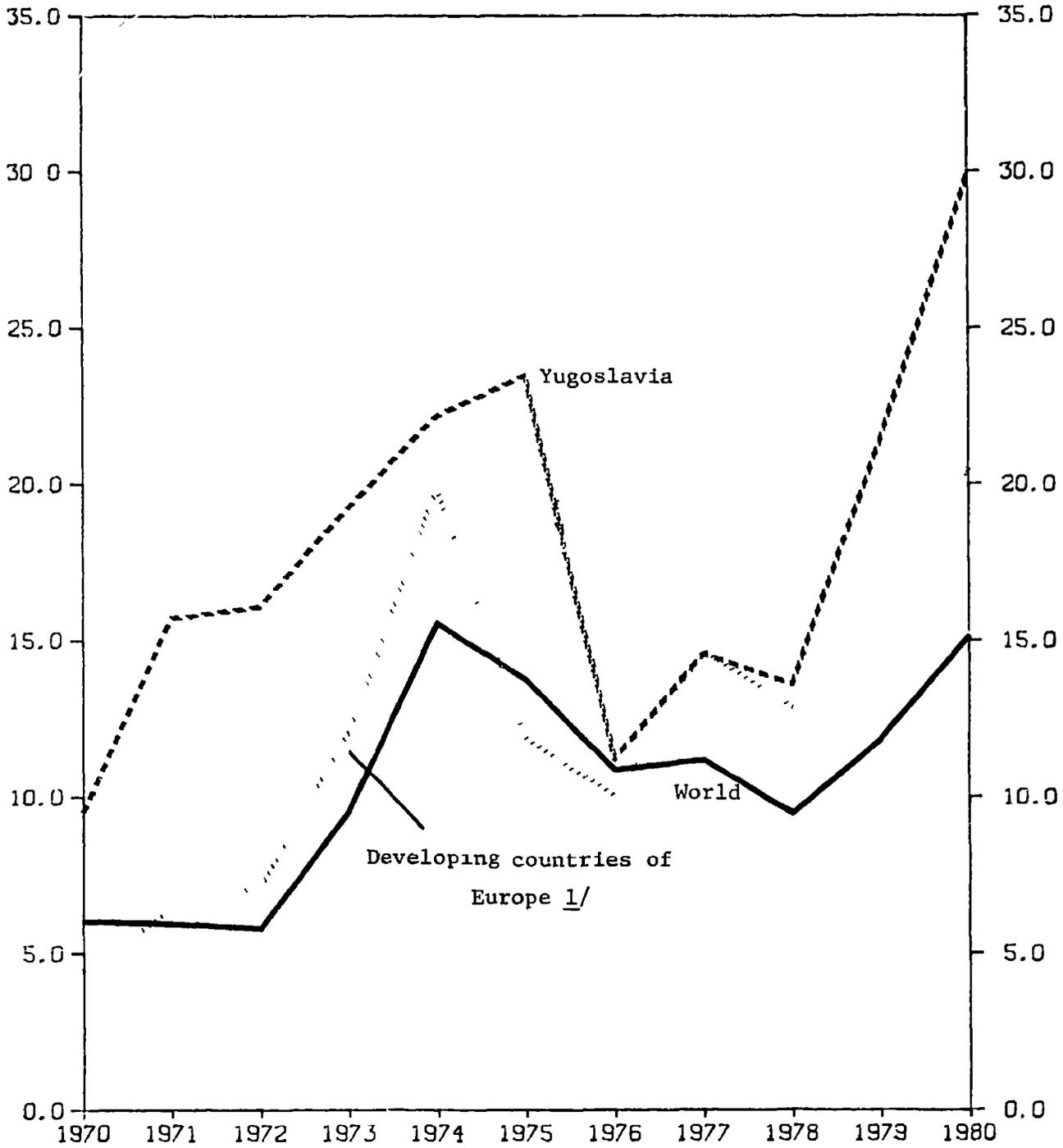
2. Price projections for 1982

Price targets have been specified for the 12 months to December 1982. They call for the rates of increase in the retail price index and in producer prices for industrial goods and for agricultural commodities to be reduced to 15 per cent. The targets for the prices of services and the cost of living index are 16 per cent and 17 per cent, respectively. With the carry-over effect of higher prices from 1981, the average increase in retail prices and the GSP deflator in 1982 was projected to be 20 per cent. Precise targets were being set for prices in 33 key industrial branches. These targets are average concepts insofar as prices of certain commodities and services are allowed to rise above specified targets. For example, prices of certain services would be raised by less than 16 per cent so as to permit a greater rise in household rents.

3. Personal incomes

The basic aim of income policies in 1980 and 1981 was to keep the growth of personal incomes below that of the total gross incomes of enterprises, sociopolitical entities, and other organizations. Quantitative guidelines on incomes policies were set out in social compacts agreed between the Federation, the republics, autonomous provinces, sociopolitical bodies, and enterprises at the beginning of 1980. For enterprises engaged in economic activities, the growth of personal incomes was to be limited to at least 5 percentage points below the growth rate of enterprise income; for noneconomic activities (for example, administration, banking, and many services), the equivalent restriction was 7 to 9 percentage points below the growth rate of enterprise incomes. In the event, these guidelines were adhered to in 1980,

Chart 1. Yugoslavia
Developments in Consumer Prices, 1970-80
(Percentage change over previous year)



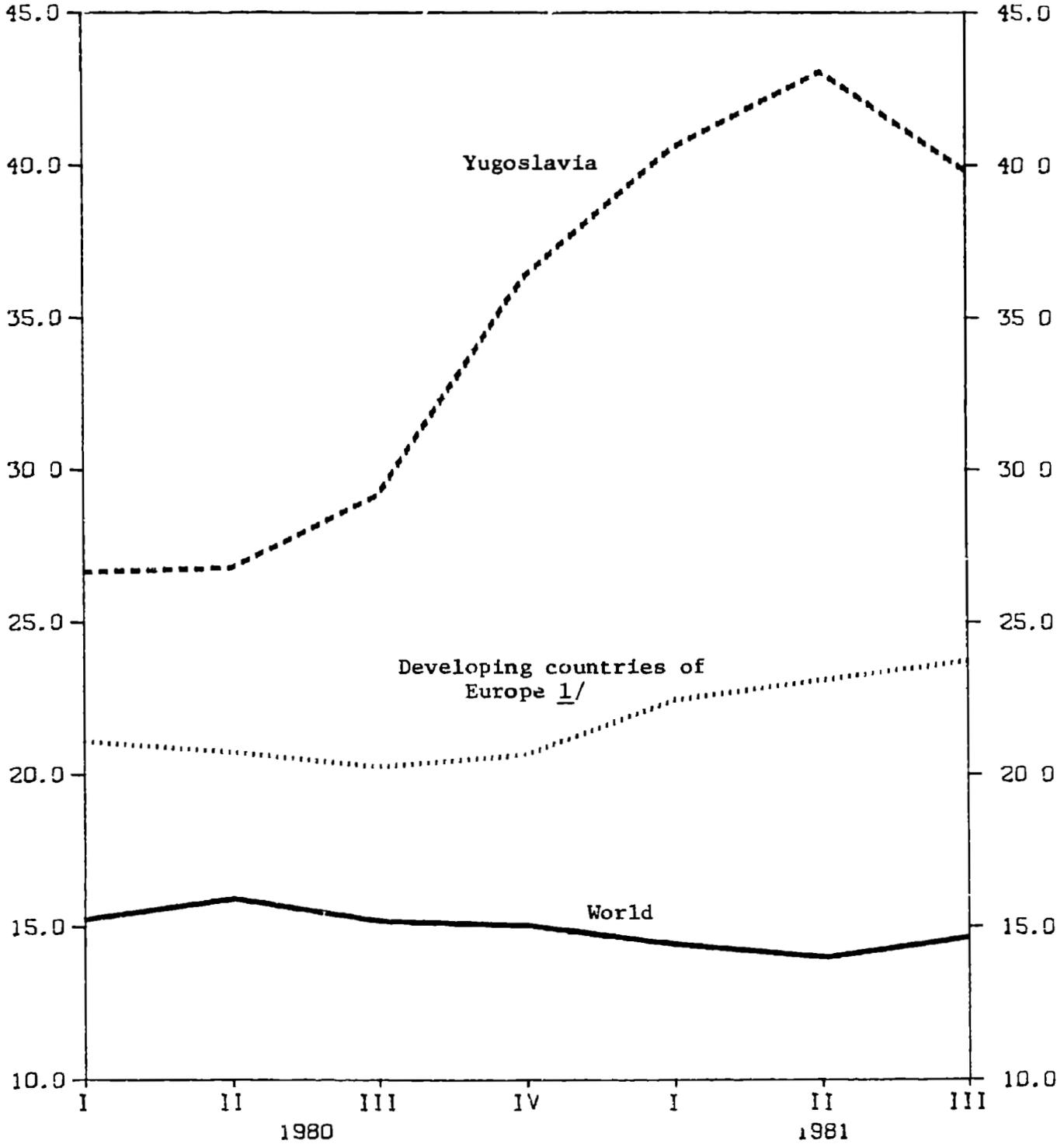
Source: IMF, International Financial Statistics.

1/ Excludes Turkey.

Chart 2. Yugoslavia

Developments in Consumer Prices, 1980-81

(Percentage change over corresponding quarter
of preceding year)



Source: IMF, International Financial Statistics.

1/ Excludes Turkey.

so much so that real net personal incomes per employee in the socialized sector fell by 7 per cent in 1980; real wages in the noneconomic sector are estimated to have fallen by 9 per cent.

Although the thrust of incomes policies in 1981 were the same as in 1980, no quantitative guidelines were specified and enterprises were left to formulate the quantitative aspects of their own incomes policies. It was also the intention that there should be no further erosion of real personal incomes in 1981 and that such incomes should rise in line with labor productivity growth. In addition, it was the aim to increase personal incomes of lower-paid workers and those in arduous occupations (e.g., coal miners) at relatively fast rates. In 1981, personal incomes are estimated to have risen at a lower rate than enterprise incomes. Personal incomes in enterprises engaged in economic activities are estimated to have risen on average by 35 per cent in 1981, while those in the noneconomic sector are estimated to have risen by 27 per cent. As the rate of inflation was much higher than expected in 1981, real personal incomes are estimated to have declined on average by 5 to 6 per cent, with the fall in the noneconomic sector being 9 to 10 per cent. With respect to developments in personal incomes according to economic sectors, the highest rates of increase were in mining, agriculture, and forestry (Table 11), while the lowest rates were in all branches of the noneconomic sector, including banking and financing, which experienced very rapid rises in the 1970s. In occupations in priority sectors where there are labor shortages there has been a tendency for wages to rise at a relatively fast rate. For example, wages of coal miners have been increased from a monthly average of Din 8,293 in the first six months of 1980 to Din 11,700 in the same period of 1981.

In both 1980 and 1981 household receipts were boosted by strong increases in net workers' remittances (Table 12), the bulk of which were denominated in deutsche mark. Social security transfers, which during the 1970s tended to rise at a faster rate than personal incomes in the socialized sector, rose by 27 per cent in 1980. The latter increase was insufficient to offset the increase in the cost of living of 30 per cent in 1980. In 1981 social security transfers again declined in real terms as public sector expenditures were further restrained.

Table 9. Yugoslavia: Yearly Changes in Price Indices
(Percentage changes over 12 months to end of period)

	1978	1979	1980	1981	
				Nov.	Dec.
Producers' prices					
Industrial goods	8.9	14.9	39.8	37.3	35.0
Investment goods	5.1	5.3	22.2	21.2	...
Semifinished goods	9.8	17.8	46.7	39.4	...
Consumption goods	8.5	13.1	33.7	37.7	...
Agricultural goods	12.6	23.6	46.5	56.6 <u>1/</u>	...
Retail prices					
General index	15.7	23.9	39.2	41.1	39.3
Agricultural goods	14.0	25.8	42.2	37.3	36.0
Industrial goods	16.5	24.0	41.7	43.8	41.5
Services	14.3	24.0	24.3	26.8	27.0
Cost of living					
General index	15.8	23.0	37.3	37.7	36.2
Food	14.1	22.7	40.3	40.8	38.0
Clothing	17.6	22.2	29.1	39.6	37.6
Rent	16.1	18.7	25.7	22.1	...
Services	14.0	21.6	22.7	25.6	34.5

Sources: Indeks; and data supplied by the Yugoslav authorities.

1/ July 1981 compared with July 1980.

Table 10. Yugoslavia: Quarterly Changes in Price Indices
(Percentage change over same quarter of previous year)

	1978	1979	1980	1981
Producers' prices of industrial goods				
First quarter	9.8	9.6	21.8	47.4
Second quarter	7.8	12.5	24.5	50.0
Third quarter	7.6	15.2	28.8	44.6
Fourth quarter	<u>8.4</u>	<u>15.4</u>	<u>38.7</u>	<u>36.7</u>
Annual quarterly average	8.9	13.2	28.5	44.7
Retail prices				
First quarter	12.5	18.2	27.1	46.8
Second quarter	13.1	21.0	27.2	50.5
Third quarter	13.2	25.0	28.8	45.8
Fourth quarter	<u>14.6</u>	<u>24.5</u>	<u>37.3</u>	<u>40.5</u>
Annual quarterly average	13.4	22.1	30.1	45.9
Cost of living				
First quarter	12.0	17.0	26.8	40.5
Second quarter	13.4	20.1	26.8	44.3
Third quarter	14.7	22.4	29.5	41.4
Fourth quarter	<u>15.9</u>	<u>22.3</u>	<u>37.3</u>	<u>...</u>
Annual quarterly average	14.0	20.4	30.1	...

Sources: Indeks; and data supplied by the Yugoslav authorities.

Table 11. Yugoslavia: Net Personal Income per Employee
by Sector

	Dinars per month					Annual percentage change				
	1977	1978	1979	1980	1981 Jan.- July	1977	1978	1979	1980	1981 Jan.- July 1/
Manufacturing, mining, and quarrying	3,927	4,732	5,688	6,955	8,985	17.7	20.5	20.2	22.2	38.3
Agriculture and fishing	3,921	4,494	5,316	6,616	8,560	13.1	14.6	18.3	24.5	42.2
Forestry	3,863	4,599	5,665	7,087	9,507	22.4	19.1	23.2	25.1	46.7
Construction	4,090	4,927	5,911	7,022	8,663	18.1	20.5	20.0	18.8	30.4
Transportation and communications	4,478	5,410	6,551	7,904	9,921	18.2	20.8	21.1	20.6	33.6
Trade	4,135	5,004	6,102	7,174	8,785	22.3	21.0	21.9	17.6	30.7
Catering and tourism	3,530	4,319	5,203	6,365	7,923	16.6	22.4	20.5	22.3	34.9
Arts and crafts	4,268	5,231	6,399	7,741	9,843	22.4	22.6	22.3	21.0	35.3
Housing and public utilities	4,115	5,005	6,065	7,275	9,012	19.8	21.6	21.1	20.0	30.9
"Noneconomic" sector	4,865	5,923	7,078	8,428	10,126	19.7	21.7	19.5	19.0	26.8
Total socialized sector	4,198	5,075	6,113	7,368	9,249	18.7	20.9	20.5	21.5	33.8

Source: Data supplied by the Yugoslav authorities.

1/ Compared with the corresponding period of 1980.

Table 12. Yugoslavia: Selected Components of Household Income

	1977	1978	1979	1980	1981	1977	1978	1979	1980	1981
	In billions of dinars					Annual percentage change				
Net personal income from socialized sector	257.1	321.5	404.5	501.2	417.2	21.5	25.0	25.8	24.0	37.0 ^{1/}
Social security transfers	64.4	82.6	109.0	138.4	...	21.7	28.3	32.0	27.0	...
Proceeds from sale of agricultural products and cattle	33.1	39.9	45.6	58.0	..	26.3	20.1	14.3	27.0	...
Net remittances from abroad	24.3	30.8	32.5	42.0	64.0	0.8	26.7	5.5	29.2	52.3 ^{1/}

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

^{1/} Staff estimates based on preliminary data.

III. Mobilization of Saving, Money, and Credit

1. Mobilization of Saving

The deterioration of the external and internal balance in the economy in 1979 and the improvement in 1980 and 1981 can be seen in the behavior of saving, investment, and financial surpluses. Gross domestic saving has been on a rising trend as a proportion of GSP, but falls occurred in 1977 and 1979, the two years when the balance of payments current account worsened sharply (Table 13).

The upward trend in the aggregate saving ratio is attributable to the enterprise sector, while the setbacks in 1977 and 1979 are due to other sectors, which usually contribute nearly half of the total saving. The rise in enterprise saving as a share of GSP reflects both the rising share of social product generated in the enterprise sector and the recent fall in the share of gross wages and other personal incomes in enterprise income. Despite the latter, household saving has held up well. This is mainly because the relatively slow growth of income from employment was offset by more rapid growth of remittances from abroad, and the rate of return available on foreign currency deposits made sav-ings out of these remittances attractive. The fall in 1977 in the saving of government (the Federation and other sociopolitical communities together) and other organizations, most of which are engaged in providing health, education, and other services, was partially reversed in 1978. There was little net change in 1979, but then a deterioration in 1980, which was again reversed in 1981.

The upward trend in enterprise saving in relation to GSP was matched by a rise in enterprise fixed investment until 1978. Since then the share of such investment in GSP has fallen. As the share in GSP of fixed investment by other sectors has been fairly stable in the last three or four years, the relative decline in enterprise investment was reflected also in total fixed investment. In 1980 it amounted to 33.7 per cent of GSP compared with a gross saving ratio of 45.5 per cent. The equivalent shares in 1979, when the imbalance of external accounts was most severe, were 35.1 per cent for fixed investment and 41.9 per cent for saving.

Estimates of stockbuilding valued at average current prices are not available. A rough idea of the relative size of investment in stocks in the different sectors can be obtained from estimates of the change in the book value of stocks (Table 13). Most stockbuilding occurs in the enterprise sector, with a small amount also in the household sector (which includes most of agriculture).

The enterprise sector and the Federal Government are the only two sectors that invest more than they save, and thus are net borrowers. Federal Government borrowing has been less than 1 1/2 per cent of GSP in recent years, and only 0.1 per cent in 1981. The Government and other organizations altogether have a net financial surplus, which was 1.2 per cent of GSP in 1980. Households are the main ultimate source of

funds for enterprises. The deterioration in the overall financial surplus in 1979 resulted mainly from a worsening in the position of households. The improvement in 1980 reflected a large rise in enterprise saving, accompanied by a fall in fixed investment, and some rise in household saving, all expressed as a proportion of GSP.

Comprehensive information on saving and investment by sector is not yet available for 1981. Quarterly data for the enterprise sector alone are shown in Table 14. Although not identical to those in Table 13, they are conceptually the same, except that they are expressed as a proportion of the gross income of enterprises, which is 80-85 per cent of GSP. Enterprise saving continued to grow at the beginning of the year, but levelled off in the second and third quarters. However, the share of enterprise fixed investment in GSP was considerably lower in 1981 than in 1980. Although the absence of data on stockbuilding makes it impossible to be certain, the financial surplus of enterprises may have risen as a percentage of GSP between 1980 and 1981.

The financial surplus of the Government and other organizations together is also expected to be higher in 1981 than in 1980. The Federal Government budget deficit is estimated to be lower, and some of the republican and provincial governments and self-managing communities of interest in the social sector have accumulated larger surpluses than usual. However, it is quite likely that households' financial surplus will be lower in 1981 than in 1980, because of the further fall in real wages and large negative real interest rates; hence the saving ratio has probably fallen. Nevertheless, the financial surplus of all domestic sectors together is likely to have improved further in 1981, after some improvement in 1980, in line with the reduction in the balance of payments current account deficit.

There has been a rapid growth in both gross lending and borrowing by enterprises. Gross lending rose from 13 per cent of GSP in 1977 to 37 per cent in 1980, and borrowing rose by a similar amount (Table 15). When account is also taken of revaluations, mostly because of the devaluation of the dinar, the growth in the stocks of enterprise financial assets and liabilities was very rapid in 1979 and 1980. Trade credit grew especially rapidly in these years, partly in response to the reintermediation that took place in 1976 and 1977 (Table 16). Money and quasi-money held by enterprises did not grow significantly more rapidly than nominal GSP in 1980, nor did the stock of bank credit. Trade credit continued to grow rapidly in 1981 and money and quasi-money grew much more slowly than GSP, as did bank credit.

The rapid growth in lending and borrowing by enterprises outside the banking system in the last two or three years stems in part from the tight bank credit policy. Enterprises cannot reduce labor and are somewhat reluctant to reduce output or even investment in response to a shortage of bank credit. Lack of financial discipline leads initially

to a buildup in trade credit outstanding rather than to a reduction in output, investment, or prices. This is what has been happening in recent years, and especially in 1981. On the other hand, enterprises are to some extent inhibited by the threat of making losses or becoming bankrupt.

The growth of the system of pooled resources, whereby enterprises lend to other enterprises in the same industry or region to finance agreed projects, has also contributed to the growth of extra-bank lending. In addition, the structure of interest rates may have made it profitable for enterprises to engage in direct lending outside the banks.

2. Monetary developments and policy

The main instrument of monetary policy in recent years has been the direct control of domestic credits. Ceilings on the growth of bank credit were reintroduced in the middle of 1978 following a period of about four years during which there were no direct controls on bank credit. The ceilings are decided by the Board of Governors of the National Bank of Yugoslavia. Quarterly ceilings were set at the beginning of 1980 and 1981 for the growth in bank credit. In 1980, the increases permitted were 4.5 per cent to the end of March, 10 per cent to the end of June, 15 per cent to the end of September, and 21 per cent to the end of December. The increase in credit to the end of September could exceed 15 per cent to the extent of credits required to finance stocks of wheat from the 1980 harvest. In October 1980, the permitted maximum increase for the year 1980 was raised to 23 per cent and the exemption for seasonal stocks of wheat was extended to the end of the year. The following were exempted from these ceilings: credits for regional purposes and disaster relief 1/; credits associated with housing construction; part of the increase in foreign currency credits 2/; and advance payments in connection with the obligation of banks to subscribe to federal bonds. In fact, the ceiling for the end of December was exceeded by a substantial margin. Even allowing for the fact that the increases in exempted credits were smaller than were forecast at the beginning of the year, total credit expansion by the commercial banks in 1980 was greater than originally intended.

1/ Credits from the Federal Fund for Financing Economic Development in Underdeveloped Republics and Autonomous Republics and the Fund for Reconstruction and Development of Earthquake-Affected Zones in Montenegro, and credits extended under special and supplementary measures aimed at inducing faster development in the autonomous province of Kosovo.

2/ The increase in foreign currency credits reflecting the refinancing in 1980 of external credits to OALs disbursed up to December 31, 1979 (this refinancing was to enable OALs to prepay credits concluded on unfavorable terms); and the increase in foreign currency credits and other foreign currency claims on domestic clients resulting from the change in the exchange rate of the dinar on June 6, 1980.

Similar cumulative quarterly ceilings on credit expansion in 1981 were set: 4.5 per cent to the end of March, 11 per cent to the end of June, 14.5 per cent to the end of September, and 21 per cent to the end of December. Unlike in 1980, credits associated with housing construction had to be contained within these ceilings. However, with effect from the second quarter of 1981, bank credits to finance exports and the production of export goods were exempted. Also exempted, as in 1981, were credits for regional purposes and disaster relief. ^{1/} Credits subject to ceilings and nonrestricted credits are shown in Table 17. The ceilings on the growth of credit established in relation to the stand-by arrangement included all domestic credits, whether exempt or not.

Various instruments affected the structure of credit expansion. Consumer credit regulations were changed primarily in response to changes in the amount of excess supply or demand in individual consumer goods industries. The regulations usually take the form either of minimum downpayments or of disallowing altogether credit for certain types of expenditure. Two major steps were taken to tighten consumer credit conditions in 1980 and 1981. In October 1980 the minimum downpayment was raised on textiles, cars, and other consumer durables, and credits for purchasing building materials and carpentry were disallowed (Table 18). In April 1981 the minimum downpayment was again raised on some of these goods, and credits for purchasing many luxuries, including cars and some other consumer durables, were disallowed. In November 1981 the restrictions on credits for cars were relaxed because of the increasing unsold stocks of finished cars.

The growth of total bank credit is affected by the growth of credit extended by the National Bank. Lending by the National Bank to the nonbank sector has grown relatively slowly in recent years (Table 20). Such credit increased by 15 per cent in 1979, by 13 per cent in 1980, and by only 4 per cent in the ten months to the end of October 1981. Credits to the Federal Government account for the largest part of the National Bank's lending to nonbanks, but in recent years these have grown at a modest rate because of the small budget deficits. In the first ten months of 1981, for example, they grew by only 5 per cent, a rate which is unlikely to have been exceeded for 1981 as a whole. Total domestic credit expansion was therefore less rapid than that extended by commercial banks alone. ^{2/}

The structure of total credit is influenced by the provision of short-term credits from the National Bank to the commercial banks at very low interest rates for onlending for specified purposes only. The

^{1/} These exemptions were the same as in 1980.

^{2/} The growth rates are (in per cent):

	<u>1979</u>	<u>1980</u>	<u>1981 to Oct.</u>
Commercial bank credit	29	31	21
Total domestic credit	27	29	19

The table includes the Post Office Savings Bank as well as the commercial banks and the National Bank.

great bulk of these selective credits are for exports and agriculture: 52 and 34 per cent, respectively, at the end of 1980. The interest rate on export credits extended by the National Bank to the commercial banks has been 1 per cent for many years, and that on agricultural credits 3 per cent; the interest rates on other selective credits have been in the range 1-6 per cent. These rates were raised January 28, 1982, most of them by 3 percentage points.

There are limits to the proportion of credits granted by commercial banks that can be borrowed or rediscounted at the National Bank, with different limits applying to different categories. The proportion for export credits has been in the range 40-50 per cent, and those for agricultural credits 40-55 per cent (agricultural production), 45-60 per cent (agricultural stocks), and about 25 per cent (livestock). The interest rate charged by commercial banks to final borrowers is usually 1 percentage point higher than the National Bank rate on that proportion that is borrowed from the National Bank. Until the end of 1978 commercial banks charged this rate on the whole of their credits for selective purposes, but since then they have charged a higher rate on that proportion financed from their own resources. In 1979-80, for example, they charged 7 per cent on this proportion in the case of export credits, and so the average interest rate on export credits in 1980 was 4.1 per cent. In 1981 the export credit rate on the proportion financed from commercial banks' own resources rose to 9 per cent.

The stock of selective credits granted by the National Bank to the commercial banks has increased rapidly, by 32 per cent during 1979, 65 per cent during 1980, and 49 per cent in the first ten months of 1981 (Table 20). These growth rates are much greater than those of total credit, although exports and agricultural output grew more slowly than GSP. This partly reflects their attractiveness of selective credits because of the very low interest rates. The administration of the system is sufficiently tight to prevent selective credits from being obtained for purposes other than those intended.

While selective credits have been the most rapidly growing component of National Bank credits to commercial banks, the largest stock is attributable to interest-free credits which are extended in dinars on the basis of foreign currency swaps. The commercial banks obtain the foreign exchange from the foreign currency deposits of households. The National Bank bears the cost when the dinar depreciates. This takes the form of lower profits, and is reflected in the balance sheet of the National Bank as an increase in other assets. The rapid growth in this item, which more than doubled during 1980 and increased by 25 per cent in the first ten months of 1981, was mainly the result of dinar depreciation (Table 20).

The rapid growth in the gross domestic assets of the National Bank in recent years did not carry over fully into a rapid growth in reserve money because of a deterioration in net foreign assets and a sharp rise in the deposits of nonbank sectors with the National Bank. Thus reserve money, defined to include net foreign assets and all the domestic assets

of the National Bank except interest-free credits granted to commercial banks on the basis of the foreign currency swaps and to exclude the deposits of the nonbank sector, increased by only 4 per cent in 1979, by 32 per cent in 1980, and by 17 per cent in the first ten months of 1981 (Table 19). In 1979 there was a substantial deterioration of net foreign assets but the growth of reserve money during 1980 was excessive when compared with the planned rise in the money supply of 22 per cent.

The money supply has not grown in line with reserve money (Table 21). If interest-free credits are included in reserve money, the money multiplier in recent years has been similar to that in the early 1970s. There are two reasons for not expecting a stable money multiplier. First, the minimum reserve requirements were not constant; they were gradually reduced in order to maintain an adequate level of bank liquidity (Table 22). Minimum reserve policy over the last two or more years has effectively maintained the gross and net liquidity ratios of commercial banks at about 4 per cent and 2 per cent, respectively, at the end of the year, although they fell below these levels during the year for seasonal reasons. The objective in recent months has been to keep obligatory reserves at about Din 52 billion. Second, in recent years the direct control of total bank credit expansion and the policy of achieving specified balance of payments objectives have been seen as the main means of influencing monetary growth. This has freed the minimum reserve ratio to be an instrument for controlling bank liquidity, and reduced the pressure on the monetary authorities to control those National Bank assets, for example interest-free credits and other domestic assets, that are outside the official definition of reserve money.

The emphasis on controlling the monetary aggregates by means of direct controls on credit can be seen in the response of money supply to unexpected changes in reserve money. Such changes usually come from external shocks, including changes in the exchange rate that were not expected when monetary policy was planned. Thus there were unexpected increases in net foreign assets in 1972-73, 1975-76, and 1978, and unexpected decreases in 1974, 1977, and 1979-80, the last of these associated with a worse-than-expected balance of payments and the unforeseen devaluation of June 1980 (Table 23). These changes affected actual developments in reserve money. Although there was a persistent tendency for credit expansion by the National Bank to exceed the planned amounts, the excess was usually less than the unexpected change in net foreign assets. In the early 1970s, money supply deviated from the planned level by amounts similar to the amount of unplanned reserve money but the late 1970s there was not much connection between unplanned changes in reserve money and in money supply. These developments in recent years partly reflect the fact that interest-free credits and other domestic assets of the National Bank, both of which grew rapidly, are not included in the official concept of reserve money. They are also the result of the switch toward direct control of credit, and the use of the minimum reserve requirement primarily for maintaining bank liquidity.

Interest rates have not changed significantly for many years (Table 24). Most of the small changes observed in the average rates charged and paid by the commercial banks result from changes in the weights of individual banks, which have different interest rate policies, rather than from changes in actual interest rates. Until very recently, an active interest rate policy was not seen as a macroeconomic policy instrument or as a means of improving the efficiency of mobilizing and allocating financial resources. With the rise in inflationary expectations in the last two or three years, real interest rates have become increasingly negative. This has increased the redistribution of real wealth from net lenders, mostly households, to net borrowers, mostly enterprises, and has put more pressure on the direct control of credit to restrain the monetary aggregates and allocate financial resources efficiently. To counteract these tendencies, a move toward an active interest rate policy has been taken. The official discount rate was raised from 6 per cent to 12 per cent on January 28, 1982, and the rates on National Bank selective credits were also raised, from 1-3 per cent to 4-6 per cent. Partly as a consequence, the commercial banks are planning to introduce higher interest rates on both the borrowing and lending sides in March 1982.

3. The monetary aggregates

Domestic credit and broad money have grown at a fairly stable rate, usually between 25 and 30 per cent a year, over the last three or more years (Table 25). This is surprising in view of the sizable increases in the rates of inflation and nominal incomes in recent years; retail prices grew at 14-16 per cent in 1977 and 1978, but at over 50 per cent during the year up to May 1981. As a result, the velocity of circulation of broad money has been rising since 1978, following a fall during the preceding three years (Table 26). The growth of narrow money supply (currency and giro accounts) was slightly less stable than that of broad money. Its velocity of circulation also rose sharply in the recent period, following a substantial fall to the low point in 1978.

One reason for the lack of a close relationship between nominal income and money is the impact of high and unstable inflationary expectations. Another is the cycle in trade credit and the cash balances of the enterprise sector. In the early 1970s, enterprises accumulated an increasing volume of unpaid bills and ran down their cash balances. The authorities were concerned about the growing illiquidity and relaxed credit policy; the stock of trade credit was therefore reduced and some reintermediation took place in 1976 and 1977. This produced the large fall in velocity. However, the situation has now been reversed, because of the buildup of trade credit since 1978, and velocity has almost returned to the levels of the first half of the 1970s.

Underlying the fluctuations in trade credit are the responses of enterprises to changes in the monetary environment. When the authorities tighten credit controls, enterprises do not react by immediately restraining fixed investment, still less output or prices. Their first response is to economize on money and other liquid assets, and then to incur

debts to other enterprises. This occurred recently, in the first halves of 1979, 1980, and 1981 (Tables 27 and 16). In 1979 and 1980 the authorities allowed bank credit to grow more rapidly in the second half of the year, partly because they were concerned about growing liquidity difficulties. This eased the financial position of enterprises, which were able to restore their cash holdings and reduce interenterprise indebtedness; seasonal factors also contributed to these developments. Such an easing did not occur in 1981, which consequently ended with enterprises in quite a tight liquidity position. There were signs in the second half of 1981 that enterprises were beginning to adjust to the monetary squeeze by restraining prices and marketing their products more aggressively abroad so as to enable them to reduce stocks. If this continues, the growth of nominal income will fall further and will eventually come into line with the growth potential of the economy and probably below the growth of the monetary aggregates. Thus the rise in velocity will come to an end and be reversed. There is some tendency for stability in velocity over the medium term apart from the trend, but the slow response of enterprises' pricing behavior to changes in monetary conditions inhibits short-term stability.

Although domestic credit and broad money grew more rapidly during 1980 than intended, they grew considerably less rapidly than nominal income. Domestic credit increased by 29 per cent and money and quasi-money by 31 per cent during 1980, while retail prices increased by 39 per cent over the 12 months to December 1980, and there was also some real income growth. These increases in quasi-money and credit include the revaluation of foreign currency assets when the dinar depreciated by 23 per cent on June 6, 1980. Long-term credits, 10 per cent of which were denominated in foreign exchange before the devaluation, and quasi-money, a third of which was accounted for by foreign currency deposits before the devaluation, both rose sharply in the second quarter (Table 28). The net foreign assets of the banking system similarly deteriorated in the second quarter, when the revaluation effect was added to a seasonally poor period for the balance of payments. Other net liabilities of the banking system fell sharply during 1980, especially in the second quarter. These effects were not fully allowed for in the projections made at the beginning of the year.

In 1981 domestic credit is estimated to have increased by 22 per cent, the same amount as was planned (Tables 25 and 28). Money supply is estimated to have grown slightly faster than planned, and quasi-money, at 30 per cent, considerably faster. Again a part of the unplanned growth in quasi-money is attributable to an underestimate of the effects of exchange rate depreciation. Nominal income grew very much faster than planned, with retail prices rising by 39 per cent over the year to the end of December, and some real income growth occurring. Thus monetary and especially credit conditions at the end of 1981 were much tighter than planned. As already noted, the authorities contributed to this by not relaxing policy as liquidity difficulties developed, in order to maintain the pressure on enterprises to reduce price increases and increase exports. Net foreign assets continued to fall, although at a slower pace than in 1980 because of both a smaller balance of payments

current account deficit and less exchange rate depreciation. Other net liabilities of the banking system continued to fall rapidly, and by the end of 1981 were negative.

Various changes have been taking place in the structure of money and quasi-money in recent years. The proportion held in the form of foreign currency deposits rose from 20 per cent at the end of 1978 to 27 1/2 per cent at the end of October 1981 (Table 2). This resulted from both the revaluation effect and a switch into foreign currency deposits because of the larger rate of return they offer. ^{1/} Households hold most of them, two thirds in October 1981, although their share declined during 1980 and 1981 as enterprises and other organizations realized the advantages of the higher rate of return. In the case of households, the increased importance of workers' remittances in total income provided the opportunities for adding to foreign currency deposits; short-term sight deposits and long-term time deposits in dinars grew considerably less rapidly. Other liquid assets held by enterprises, especially restricted deposits relating to foreign transactions and short-term time deposits, grew fairly rapidly in 1980 and 1981. However, in 1981 enterprises economized on money, their holdings of which increased by only 9 per cent in the first ten months. As a result, their share of total money and quasi-money fell slightly, as did that of households, while other organizations increased theirs. The more rapid growth in the assets of other organizations is the result of the unexpectedly large surpluses in governments and self-managing communities of interest because their revenues rose with inflation but expenditure was held down.

Over three quarters of domestic bank credit is extended to enterprises (Table 29). However, the share of households, although still only 10 per cent of the total, has been growing steadily in recent years. The stock of housebuilding credits has grown extremely rapidly, at over 50 per cent a year, whereas that of consumer credits has hardly grown at all, and actually fell in nominal terms for most of 1981. The indebtedness of the Federal Government and other sociopolitical communities to the banks has grown relatively slowly, reflecting the small federal budget deficits, and surpluses elsewhere in the public sector. Short-term credit has grown more rapidly than long-term credit: its share rose from 24 per cent at the end of 1978 to 31 per cent at the end of October 1981. There are various regulations that are aimed at ensuring that finance for current operations and stockbuilding is classified as short term and that for fixed investment as long term. Although funds are to some extent fungible, the more rapid growth of short-term credit does in fact reflect the lower importance of fixed investment and, in 1981 at least, the growth of stocks.

^{1/} Sight foreign currency deposits earn a rate of interest of 7.5 per cent per annum, while foreign currency deposits held for 12 to 24 months earn 9 per cent, and those above 24 months earn 10 per cent. The interest is denominated in the foreign currency in which the account is held.

Table 13. Yugoslavia: Saving, Investment, and Financial Surplus,
by Sector, 1976-80

(In per cent of GSP)

	1976	1977	1978	1979	1980
Gross saving <u>1/</u>					
Enterprise sector	19.8	20.6	21.7	22.2	25.6
Household sector	13.5	12.0	14.2	12.5	13.1
Federal Government	-1.8	-1.6	-1.3	-0.2	-1.1
Other sociopolitical communities	2.3	-0.2	1.8	1.4	0.9
Other organizations	<u>7.4</u>	<u>6.5</u>	<u>6.1</u>	<u>6.0</u>	<u>6.2</u>
Total	41.1	37.4	42.6	41.9	44.7
Gross fixed investment <u>1/2/</u>					
Enterprise sector	20.1	22.6	24.9	24.0	22.6
Household sector	6.7	5.8	6.3	6.2	5.7
Federal Government	0.2	0.1	0.1	0.1	0.1
Other sociopolitical communities	1.5	0.5	0.6	0.5	0.5
Other organizations	<u>4.5</u>	<u>4.0</u>	<u>4.0</u>	<u>4.3</u>	<u>4.2</u>
Total	33.1	33.1	35.9	35.1	33.1
Investment in stocks <u>3/</u>					
Enterprise sector	6.5	8.6	5.9	9.1	11.9
Household sector	<u>1.3</u>	<u>1.2</u>	<u>1.0</u>	<u>0.9</u>	<u>1.5</u>
Total	7.9	9.7	6.9	10.0	13.4
Current account balance of payments	0.5	-4.4	-1.8	-5.6	-3.6
Statistical discrepancy <u>3/</u>	-0.5	-1.0	1.6	2.4	1.8
Financial surplus <u>3/</u>					
Enterprise sector	-6.9	-10.6	-9.0	-10.8	-3.9
Household sector	5.4	5.0	6.9	5.4	5.9
Other sectors	<u>1.4</u>	<u>0.1</u>	<u>2.0</u>	<u>2.2</u>	<u>1.2</u>
Total domestic sectors	-0.1	-5.5	-0.2	-3.2	-1.8

Source: Flow of funds accounts, published in National Bank of Yugoslavia, Quarterly Bulletin, and, for 1980, supplied by the Yugoslav authorities.

1/ Includes depreciation.

2/ Payments for investment. These tend to be less than the value of investment work completed, which is the concept measured in the national accounts.

3/ Investment in stocks is measured as the change in the book value of stocks and work in progress. It therefore includes changes due to price changes alone and hence, since inflation was quite high during this period, the financial surpluses of enterprises and households are underestimated in these figures, and so is the statistical discrepancy. The official national accounts published in the Statistical Yearbook of the SFRY include the following estimates of the value of the physical increase in stocks and work in progress for the economy as a whole:

(As a percentage of GSP)	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>
	5.1	8.0	3.2	7.1

However, these are valued at the prices at the end of the year; estimates of stockbuilding valued at the average prices of the year, the desired concept, are not available.

Table 14 Yugoslavia Saving, Investment, and Financial Surplus of Enterprises, 1979-81
(In per cent of gross enterprise income)

	1979				1980				1981				
	1st qtr	2nd qtr	3rd qtr	4th qtr	Year	1st qtr	2nd qtr	3rd qtr	4th qtr	Year	1st qtr.	2nd qtr.	3rd qtr.
Gross saving 1/	30.3	28.8	27.4	27.3	28.2	33.3	32.0	30.6	31.1	31.6	34.5	31.4	29.9
Investment													
Gross fixed 2/	24.3	18.2	19.3	48.6	28.6	17.9	23.0	18.5	42.8	26.9	13.0	20.2	18.4
Stocks 3/	11.8	12.6	9.4	13.5	11.9	8.3	11.7	12.7	22.6	14.6	19.8	22.4	15.6
Financial surplus 3/	-5.8	-2.0	-1.3	-34.9	-12.2	7.2	-2.7	-0.5	-34.3	-9.8	1.8	-11.1	-4.1
Gross income (in billions of dinars) 1/	187.1	240.5	243.1	276.8	947.5	250.2	309.1	328.9	388.7	1,276.9	342.6	432.7	451.5

Source: Financial returns of organizations of associated labor in the economic sector in Statisticki Bilten, quarterly

1/ Includes depreciation

2/ Payments for investment.

3/ Investment in stocks is measured as the change in the book value of stocks and work in progress. It therefore includes changes due to price changes alone and hence, since inflation was high during this period, the financial surplus is underestimated.

Table 15. Yugoslavia: Lending and Borrowing by Enterprises

	1976	1977	1978	1979	1980	Stock at end of 1980 <u>In billions of dinars</u>
Financial surplus ^{1/} (In per cent of GSP)	-6.9	-10.6	-9.0	-10.8	-8.9	
Gross lending ^{1/} (In per cent of GSP)	5.3	13.3	27.7	25.9	36.7	
(In per cent of initial stock)	7.1	20.0	42.7	41.0	54.6	
Gross financial assets: percentage change						
Money and quasi-money	55.4	21.6	22.6	16.1	37.0	464.2
Trade credit	-17.3	13.8	16.1	50.7	87.0	817.5
Other assets	33.1	29.3	57.3	81.9	43.7	397.4
Total assets	9.5	19.3	25.6	43.4	59.5	1,679.1
Gross borrowing ^{1/} (In per cent of GSP)	12.2	23.9	36.7	36.6	45.6	
(In per cent of initial stock)	10.5	22.0	34.3	36.5	43.7	
Gross financial liabilities: percentage change						
Bank credit	28.5	21.7	31.1	29.4	29.9	1,225.1
Trade credit	-13.1	14.2	11.3	57.9	105.6	792.0
Other liabilities	69.8	26.3	1.3	55.0	82.6	556.6
Total liabilities	16.1	20.8	21.0	39.7	57.6	2,573.7

Sources: Flow of funds accounts in National Bank of Yugoslavia, Quarterly Bulletin, October 1980, and, for 1980, as provided by the Yugoslav authorities; other tables in Quarterly Bulletin; and staff estimates.

^{1/} Because appropriate data on investment in stocks are not available (see Table 13, note 3), the financial deficit is overestimated, and gross lending is underestimated or gross borrowing overestimated or both.

Table 16. Yugoslavia: Trade Credit
(In billions of dinars)

	Trade credit <u>1/</u> (end of period stock)	Gross enterprise income	Ratio of trade credit to income
1976 4th quarter	102.4	...	...
1977 4th quarter	113.9	...	...
1978 4th quarter	174.1	211.2	0.82
1979 2nd quarter	244.9	240.5	1.02
3rd quarter	273.4	243.1	1.12
4th quarter	254.6	276.8	0.92
1980 2nd quarter	340.8	309.1	1.10
3rd quarter	376.0	328.9	1.14
4th quarter	398.7	388.7	1.03
1981 2nd quarter	494.6	432.7	1.14
3rd quarter	537.9	451.5	1.19

Sources: Financial returns of organizations of associated labor in the economic sector in Statistički Bilten, quarterly; and data supplied by the Yugoslav authorities.

1/ These estimates are not as comprehensive as those in the flow of funds accounts used for Table 15. In particular, they exclude claims covered by bills of exchange.

Table 17. Yugoslavia: Commercial Bank Credit Subject to Ceilings

(In billions of dinars at end of quarter)

	1978				1979				1980				1981		
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.
Subject to ceilings	784.1	850.0	860.2	791.3	899.7	933.3	970.1	1,023.7	1,206.0	1,405.0	1,363.6				
Not subject to ceilings															
Housing construction credits	--	--	--	122.9	134.6	142.8	147.8	173.0	168.7	--	--	--	--	--	--
Export credits	--	--	--	--	--	--	--	--	--	--	--	--	--	--	134.3
Other ^{1/}	56.2	46.6	74.3	82.4	50.7	61.1	118.5	118.5	44.5	99.1	101.6				
Total	56.2	46.6	74.3	205.3	185.3	203.9	266.3	291.5	213.2	99.1	235.9				
Total	840.3	896.6	934.5	996.6	1,085.0	1,137.2	1,236.4	1,315.2	1,419.2	1,504.1	1,599.5				

Source: Data supplied by the Yugoslav authorities.

^{1/} See text for description of other exempt credits.

Table 18. Yugoslavia: Minimum Downpayment for Purchase of Selected Goods on Consumer Credit

(In per cent)

	1980		1981	
	Before Oct.	Oct.	April	Nov.
Textiles	15	20	40	40
Refrigerators, washing machines, etc.	22	40	50	50
Furniture "	30	40	50	50
Color TV and stereo equipment	45	55	<u>1/</u>	<u>1/</u>
Cars	67	75	<u>1/</u>	60

Sources: The Official Gazette of the Socialist Federal Republic of Yugoslavia, No. 60, October 27, 1980, and No. 19, April 3, 1981; and information supplied by the Yugoslav authorities.

1/ Purchases of these goods with consumer credits not permitted.

Table 19 Yugoslavia Sources and Uses of Reserve Money

(In billions of dinars at end of quarter)

	1978		1979		1980				1981			
					1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	Oct.
Sources												
National Bank's domestic assets 1/												
Credits to nonbank sectors	113.0	129.3	137.4	145.1	144.8	146.3	153.7	157.3	155.2	151.9		
Credits to banks 2/	67.4	91.3	92.1	90.4	102.8	125.1	120.3	152.0	167.0	177.7		
Other assets	24.8	54.4	55.9	80.9	143.0	152.1	159.2	168.2	180.9	190.5		
Foreign assets (net)	19.7	-18.6	-30.3	-45.8	-53.9	-68.9	-79.6	-80.8	-83.0	-92.3		
Total	224.9	256.4	255.1	270.6	336.7	354.6	353.6	396.7	420.1	427.8		
Less deposits of nonbank sectors with the National Bank	17.6	39.2	29.4	70.2	71.4	67.0	70.1	75.5	84.0	91.1		
Reserve money	207.3	217.2	225.7	200.4	265.3	287.6	283.5	321.2	336.1	335.9		
Uses												
Obligatory reserves of banks	60.8	51.3	50.8	47.4	53.0	51.2	53.6	51.7	54.3	52.2		
Liquid reserves of banks	6.0	5.9	6.1	4.4	6.2	9.4	6.8	7.2	5.0	5.5		
Currency in circulation	75.0	90.7	95.8	-105.1	106.9	116.0	110.1	124.4	132.0	135.4		
Money float	14.1	11.2	14.2	12.5	22.7	15.7	25.4	28.4	25.4	16.5		
Giro accounts of business banks	13.8	19.9	8.9	8.8	9.6	20.7	9.5	8.3	7.5	9.3		
Short-term deposit money	11.2	14.6	15.9	14.2	13.3	14.3	19.8	25.4	24.6	25.3		
Other bank deposits with the National Bank 3/	5.6	9.3	5.0	5.8	4.1	5.9	7.1	17.3	9.2	7.2		
Other deposits	27.2	23.3	38.6	10.8	57.4	64.1	65.9	78.5	96.8	103.1		
Total	213.7	226.2	235.3	209.0	273.2	297.3	298.2	341.2	354.8	354.5		
Less Federal Government deposits	6.4	9.0	9.6	8.6	7.9	9.7	14.7	20.0	18.7	18.6		
Reserve money	207.3	217.2	225.7	200.4	265.3	287.6	283.5	321.2	336.1	335.9		

Source: Data supplied by the Yugoslav authorities.

1/ Further details are shown in Table 20

2/ Excluding interest-free credits granted on the basis of foreign currency deposits of households.

3/ Excluding foreign currency of households

Table 20 Yugoslavia Domestic Assets of the National Bank
(In billions of dinars at end of quarter)

	1978				1979				1980				1981				
	4th qtr	1st qtr	2nd qtr.	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr.	4th qtr	1st qtr	2nd qtr	3rd qtr.	4th qtr	1st qtr	2nd qtr	3rd qtr	Oct.
Credits to nonbank sectors 1/																	
Bills	0.3	4.0	3.4	4.1	4.4	6.1	7.9	7.3	6.9	10.5	10.9	6.9	3.3				
Federal Government	61.0	63.3	65.4	67.2	70.3	76.6	80.4	80.1	80.3	84.1	84.2	84.2	84.2				
Other sociopolitical communities	7.1	7.0	7.0	6.9	6.9	6.7	6.7	6.7	6.8	6.6	6.6	6.6	6.6				
Other sectors	44.3	44.3	45.2	45.0	47.7	48.0	50.8	50.7	52.3	52.4	55.5	57.4	57.7				
Total	112.7	118.6	121.0	123.2	129.3	137.4	145.8	144.8	146.3	153.6	157.2	155.1	151.8				
Credits to banks																	
Against securities	6.5	5.4	5.2	8.9	10.1	10.0	9.8	11.4	14.8	14.5	24.6	19.5	21.1				
Selective credits	40.6	38.3	39.7	46.2	53.5	54.6	57.4	69.3	88.4	86.4	107.4	123.2	131.6				
Liquidity credits	4.7	2.7	3.7	3.8	8.8	8.9	4.5	3.7	5.8	3.8	1.5	5.3	4.8				
Interest-free credits	88.7	99.2	103.0	107.9	113.1	124.5	127.1	133.5	140.4	157.8	158.7	158.7	158.9				
Other	15.5	16.7	19.7	18.7	18.8	18.7	18.6	18.3	16.1	15.6	18.5	19.0	20.2				
Total	156.0	162.3	171.3	185.5	204.3	215.7	217.4	236.2	265.5	278.1	310.7	325.7	336.6				
Other domestic assets 2/	24.8	25.2	32.6	42.0	54.4	55.8	80.9	143.0	152.1	159.2	168.2	180.9	190.5				
Total domestic assets 2/	293.5	306.1	324.9	350.7	388.0	409.9	444.1	524.0	563.9	590.9	636.1	661.7	678.9				

Sources National Bank of Yugoslavia, Quarterly Bulletin, Tables 9 and 12, and data supplied by the Yugoslav authorities

1/ Including resources transferred for permanent use

2/ Excluding quota payments to international financial organizations and fixed and other assets of bank funds

Table 21. Yugoslavia: Money Multipliers

End of:	Reserve Money 1/			Money Multipliers			
	NBY	IMF	IFS	NBY	IMF	IFS	
	definition	definition	definition	definition	definition	definition	
	In billions of dinars						Ratios
Money Supply							
1971	40.7	43.0	50.7	36.9	0.95	1.10	
1972	55.2	62.2	67.5	54.8	0.89	1.01	
1973	77.5	79.8	84.2	69.5	0.97	1.12	
1974	97.2	84.6	89.4	74.0	1.15	1.31	
1975	130.7	103.7	107.4	84.4	1.24	1.44	
1976	206.5	144.2	147.6	131.3	1.43	1.57	
1977	251.1	162.0	167.6	151.6	1.53	1.65	
1978	315.3	187.9	207.3	202.0	1.63	1.82	
1979	375.2	187.0	217.2	334.1	2.01	1.81	
1980	461.6	182.9	257.6	444.2	2.52	1.63	
1981 October	557.1	...	335.9	...	...	...

Sources: National Bank of Yugoslavia, Quarterly Bulletin; International Monetary Fund, IFS; Table 12; and data supplied by the Yugoslav authorities.

1/ The three definitions are those used by: National Bank of Yugoslavia, in Table 23 of the Quarterly Bulletin (NBY); IMF staff, in Table 19 (IMF); and IMF, Bureau of Statistics (IFS). The main differences between the series are: IMF = NBY + other domestic assets of the National Bank (Table 20) - deposits of nonbank sectors (Table 19); and IFS = IMF + interest-free credits (Table 20).

Table 22. Yugoslavia: Banks' Reserve Requirements and Liquidity
(End-of-quarter stocks; in billions of dinars and per cent)

	1978				1979				1980				1981				
	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.	qtr.
Reserve requirements																	
1. Obligatory reserves	60.8	51.3	50.8	47.4	53.0	51.2	53.6	51.7	54.3	52.2							
2. Ratio to deposits (100 x 1 ÷ 13) ^{1/}	14.7	10.5	10.1	9.1	9.5	8.5	8.5	7.9	7.7	7.3							
3. Reserve requirement ^{1/} (in per cent)	...	18.6	18.0	16.0	15.5	14.3	12.7	12.7	12.7	11.7							
Liquidity																	
4. Giro accounts with National Bank	13.8	19.9	8.9	8.8	9.5	20.7	9.5	8.3	7.5	9.3							
5. Cash in till	1.8	2.1	2.0	2.1	2.6	3.1	3.0	3.6	3.6	3.6							
6. Liquid assets (4 + 5)	15.6	22.0	10.9	10.9	12.1	23.8	12.5	11.9	11.1	12.3							
7. Liquidity credits from National Bank	4.7	8.8	8.9	4.5	3.7	5.8	3.8	1.6	5.4	4.9							
8. Drawing on reserve fund assets	1.1	2.9	2.7	5.0	4.3	2.4	5.2	6.2	8.8	8.5							
9. Drawing on obligatory reserve assets	0.3	3.6	4.2	4.3	1.4	4.4	4.1	5.2	7.1	4.9							
10. Net liquid assets (6 - 7 - 8 - 9)	9.5	6.7	-4.9	-2.9	2.7	11.2	0.6	-1.1	-10.5	-6.0							
11. Gross liquidity ratio (100 x 6 ÷ 13)	3.8	4.5	2.2	2.1	2.2	4.0	2.0	1.8	1.6	1.7							
12. Net liquidity ratio (100 x 10 ÷ 13)	2.3	1.4	-1.0	-0.6	0.5	1.9	0.1	-0.2	-1.5	-0.8							
13. Short-term deposits	412.4	487.0	500.8	519.2	557.3	599.2	633.2	655.0	703.8	714.8							

Sources: National Bank of Yugoslavia, Quarterly Bulletin; and data supplied by the Yugoslav authorities.

^{1/} The ratio of actual obligatory reserves to short-term deposits is not directly comparable with the reserve requirement, which applies only to certain categories of deposit within the total.

Table 23. Yugoslavia: Actual and Projected Changes in the Monetary Aggregates

(Changes during year in billions of dinars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Net foreign assets of National Bank											
Projected	0.1	-0.9	1.7	0.8	-7.3	-1.6	4.6	-1.3	0.5	5.0	-33.0
Actual	-1.4	8.2	7.6	-7.6	-1.7	15.8	-5.0	4.3	-38.2	-50.4	
More (+), less (-) than projected	-1.5	+9.1	+5.9	-8.4	+5.6	+17.4	-9.6	+5.6	-38.7	-55.4	
National Bank credits ^{1/}											
Projected	4.5	5.8	5.9	8.3	17.1	21.2	13.1	19.8	22.0	31.0	56.0
Actual	7.4	11.0	10.0	12.4	20.8	24.7	22.8	21.6	37.3	46.3	
More (+), less (-) than projected	+2.9	+5.2	+4.1	+4.1	+3.7	+3.5	+9.7	+1.8	+15.3	+15.3	
Reserve money issue ^{1/}											
Projected	4.6	4.9	7.6	9.1	9.8	19.6	17.7	18.5	22.5	36.0	23.0
Actual	6.0	19.2	17.6	4.8	19.1	40.5	17.8	25.9	-0.9	-4.1	
More (+), less (-) than projected	+1.4	+14.3	+10.0	-4.3	+9.3	+20.9	+0.1	+7.4	-23.4	-40.1	
Money supply ^{2/}											
Projected	5.3	5.2	9.3	19.3	26.9	24.2	34.0	47.1	58.0	85.0	102.0
Actual	5.5	18.0	22.3	21.6	34.4	76.5	42.9	72.2	55.1	86.5	108.4 ^{3/}
More (+), less (-) than projected	+0.2	+12.8	+13.0	+2.3	+7.5	+52.3	+8.9	+25.1	-2.9	+1.5	+6.4

Source. Data supplied by the Yugoslav authorities.

^{1/} The concept of reserve money issue is that used by the National Bank of Yugoslavia. Its relationships to other concepts is summarized in Table 2L 'National Bank' credits are those that are consistent with this concept.

^{2/} This concept of money supply differs slightly in earlier years from that now used, and shown in Tables 25 and 26.

^{3/} Estimate.

Table 24. Yugoslavia: Selected Interest Rates
(In per cent per annum)

End of period	1977	1978	1979	1980	1981 Sept.
Central bank rate of interest					
Rates charged by the national banks					
Official discount rate	6.0-8.0	6.0	6.0	6.0	6.0
Credits to banks for selective purposes	1.0-6.0	1.0-6.0	1.0-6.0	1.0-6.0	1.0-6.0
Credits to banks for liquidity purposes	8.0	8.0	8.0	8.0	8.0
Credits to nonbank sectors	0.001-6.0	1.0-3.0	1.0-3.0	1.0-3.0	1.0-3.0
Rates paid by the central bank					
Banks' obligatory reserves with the National Bank of Yugoslavia	3.0	3.0	3.0	3.0	3.0
Treasury bills issued by the National Bank of Yugoslavia	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0	6.0-8.0
Liquidity reserves of the Post Office Savings Bank	8.5	8.5	8.5	8.5	8.5
Rates of interest of commercial banks and other financial institutions					
Rates charged to borrowers					
Discount of securities					
Securities with a maturity of up to 90 days	7.24	7.42	7.53	7.42	7.57
Securities with a maturity of over 90 days	8.0	7.53	7.88	9.50	8.32
Short-term credits	9.31	9.6	8.78	9.44	9.64
Medium- and long-term credits	8.58	8.99	6.91	5.74	8.30
Long-term credits to OALs for housing construction	5.54	4.88	6.88	7.14	8.17
Credits to households					
Consumer credits	12.0	12.0	12.0	12.0	12.0
Credits for housing construction	6.54	5.21	5.57	5.68	6.09
Rates paid to lenders					
Time deposits of OALs					
Up to one year	3.42	4.55	5.09	5.69	7.68
Over one year	4.8	6.04	7.56	8.72	5.94
Deposits of households					
Savings sight deposits	7.5	7.5	7.5	7.5	7.5
Savings time deposits					
From one to two years	9.0	9.0	9.0	9.0	9.0
Over two years	10.0	10.0	10.0	10.0	10.0
Short-term interbank lending for liquidity purposes	9.76	9.65	9.93	9.03	10.71

Sources: National Bank of Yugoslavia, Quarterly Bulletin; and data supplied by the Yugoslav authorities.

Table 25. Yugoslavia: Monetary Survey, 1971-81

Year	Net Foreign Assets	Domestic Credit <u>1/</u>	Money Supply <u>2/</u>	Quasi-money <u>3/</u>	Other Items (net)
<u>(Stock at end of year; in billions of dinars)</u>					
1971	-10.0	218.1	40.7	102.6	64.8
1972	-2.0	255.5	55.2	119.3	79.0
1973	-6.0	298.9	77.5	147.2	80.2
1974	-3.6	367.1	97.2	176.5	89.8
1975	-6.3	461.3	130.7	216.4	107.9
1976	-7.2	592.1	206.5	260.7	117.7
1977	-8.6	746.2	251.1	353.3	133.2
1978	-33.4	959.2	315.3	456.9	153.6
1979	-112.0	1,217.7	375.2	575.9	154.6
1980	-257.3	1,568.3	461.6	785.5	63.9
1981 Estimate	-364.6	1,913.3	570.0	1,021.0	-42.3
<u>(Change during year; in per cent)</u>					
1978		28.5	25.6	29.3	
1979		26.9	19.0	26.0	
1980		28.8	23.0	36.4	
1981 Estimate		22.0	23.5	30.0	

Source: Data supplied by the Yugoslav authorities.

1/ Comprises bank loans extended in both dinars and foreign currencies to domestic clients, including the Government, and investment in securities. The performance criteria for the growth of domestic credit in 1981 referred to a slightly narrower concept, excluding lending by the post office savings bank and the fund for financing trade.

2/ Includes government deposits and excludes items in transit.

3/ Comprises foreign exchange deposits of residents, other sight deposits, time deposits, restricted deposits, securities issued by banks, and claims on banks in respect of pooled resources.

Table 26. Yugoslavia: Velocity of Circulation of Money

	Gross Social Product	Money Supply 1/	Money and Quasi-money 1/	Velocity of Circulation 1/	
	In billions of dinars	In billions of dinars	In billions of dinars	Narrow money	Broad money
1971	204.5	40.7	143.3	5.34	1.57
1972	245.4	55.2	174.5	5.04	1.54
1973	306.3	77.5	24.7	4.47	1.53
1974	407.2	97.2	7	4.56	1.63
1975	503.0	130.7	37.1	4.48	1.62
1976	592.6	206.5	467.2	3.51	1.46
1977	734.3	251.1	604.4	3.30	1.39
1978	901.8	315.3	772.2	3.17	1.34
1979	1,165.4	375.2	951.1	3.44	1.39
1980	1,564.6	461.6	1,247.1	3.80	1.46
1981 Estimated	(2,240.0)	(570.0)	(1,591.0)	(4.38)	(1.60)

Sources: Statistical Yearbook of the SFRY; data supplied by the Yugoslav authorities; and staff estimates.

1/ The money and quasi-money series refer to the end of the year, but the velocity of circulation was calculated as the ratio of GSP to the appropriate concept of money averaged over the year as a whole.

Table 27 Yugoslavia Money and Quasi Money by Sector and Asset, 19 8-81
(End-of-period stocks, in billions of dinars)

	1978				1979				1980				1981				
	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr	2nd qtr	3rd qtr	Oct
Households																	
Money supply	80 9	80 4	87 7	91 6	98 8	104.3	114 9	116 2	126 0	121.3	136 6	145 1	147 3				
Short-term foreign currency deposits	50 7	52 2	55 5	60 6	68 4	65 3	91 0	101 5	110 6	119 1	124.9	138 4	142 3				
Other liquid assets ^{1/}	96 1	102 4	105 9	107 5	117 6	116 2	118 6	118 5	128 5	135.3	138 8	140 7	141 8				
Long-term foreign currency deposits	55 9	59 6	63 3	68 8	79 2	80 4	109 9	114.3	119 5	125.3	127 8	133 9	136 8				
Other quasi-money ^{2/}	43 0	46 0	47 9	49 1	54 0	54 4	56 6	57 6	63 7	68.6	73 6	77 1	79 5				
Total	326 6	340 6	360 3	377 6	418 0	420 6	491 0	508 1	548 3	569.6	601 7	635 2	647.7				
Enterprise sector ^{3/}																	
Money supply	138 6	136 3	126 6	137 4	156 3	151 3	155 6	174 8	197 1	190 9	197.5	211 9	215 8				
Short-term foreign currency deposits	47 1	44 9	49 4	48 8	50.9	47 7	71 1	80 5	84 8	93 8	102.9	116 3	122 5				
Other liquid assets ^{1/}	29 8	32 1	30 0	32 2	35 9	39 8	43 5	49 4	58 2	61.9	66 9	85 1	81 5				
Long-term foreign currency deposits	0 3	0 4	0 3	0 3	0 3	0 4	0 6	0 6	0 6	0 6	0 5	0 5	0 5				
Other quasi-money ^{2/}	76 1	79 3	85 1	89 8	95 4	103 4	109 3	118 5	123 5	124 2	131 7	139 7	137 9				
Total	291 9	293 0	291 4	308 5	338 8	342 6	380 1	423 8	464.2	471 4	499.5	553 5	558 2				
Other sectors ^{4/}																	
Money supply	95 8	106 5	106 7	117 5	120 1	130.6	128 8	139.8	138 5	165 0	171 9	188 6	194 0				
Short-term foreign currency deposits	1 3	1 4	1 3	1 5	1 4	1 4	3.6	3 0	4 0	5 8	6 4	21 1	14.7				
Other liquid assets ^{1/}	17 9	20 5	19.3	20 7	22 7	24.3	20 7	27 1	25 6	23.5	23 8	12 8	18 9				
Long-term foreign currency deposits	--	--	--	--	--	--	--	--	--	0 6	0.7	0 8	1 1				
Other quasi-money ^{2/}	38 7	41 7	45 5	48 3	50 1	52 3	55 5	60 0	66 5	68 9	72 6	75.4	81 5				
Total	153 7	170 1	172 8	188 0	194 3	208 6	208 6	224 9	234 6	263.8	275.4	298 7	310 2				
All sectors																	
Money supply	315 3	323 2	321 0	346 7	375 2	386.2	399 3	430 8	461 6	477.2	506 0	545 6	557.1				
Short-term foreign currency deposits	99 1	98 5	106 2	110 9	120.7	114 4	165 7	185 0	199 4	218 7	234 2	275 8	279 5				
Other liquid assets ^{1/}	143 8	155.0	155 2	160 4	176 2	180 3	182 8	190 0	212 3	220 7	229 5	238 6	242 2				
Long-term foreign currency deposits	56 2	60 0	63 6	69 1	79 5	80.8	110 5	114 9	120 1	126 5	129 0	135 2	138 4				
Other quasi-money ^{2/}	157 8	167 0	178 5	187 2	199 5	210 1	221 4	236 1	253 7	261 7	277 9	292 2	298 9				
Total	772 2	803.7	824 5	874 1	951 1	971 8	1,079.7	1,156.8	1,247 1	1,304 8	1,376 6	1,487 4	1,516 1				

Sources National Bank of Yugoslavia, Quarterly Bulletin, and data supplied by the Yugoslav authorities.

^{1/} Short-term sight, time, and restricted deposits.

^{2/} Long-term time and restricted deposits, securities, pooled resources, and deposits for housing and communal development.

^{3/} Organizations of associated labor and self-managing communities of interest in the economic sector

^{4/} Sociopolitical communities, noneconomic organizations, other financial institutions, and the rest of the world

Table 28. Yugoslavia: Monetary Survey, 1980-81

(In billions of dinars)

	Stock at end of 1979	Change During Period								
		1980				1981				
		1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr. Est.	
Net foreign assets	-112.0	-31.0	-66.8	-11.4	-36.1	-25.9	-52.3	-8.4	-14.7	-20.7
Domestic credit: <u>1/</u>										
Short term	309.3	20.4	18.5	27.8	35.1	43.2	62.1	39.3	84.3	82.4
Long term	908.4	39.4	88.5	50.5	70.4	50.0	27.1	40.9		
Money supply <u>1/</u>	375.2	11.0	13.1	31.5	30.8	15.6	28.8	39.6	27.8	24.4
Quasi-money <u>1/</u>	575.9	9.7	94.8	45.6	59.5	42.1	43.0	71.2	46.0	79.2
Other items, net	154.6	8.1	-67.7	-10.2	-20.9	9.6	-34.9	-39.0	-4.2	-41.9

Source: Data supplied by the Yugoslav authorities.

1/ See Table 25 for definitions.

Table 29 Yugoslavia Domestic Credit by Sector
(End-of-period stocks, in billions of dinars)

	1978				1979				1980				1981				
	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	4th qtr.	1st qtr.	2nd qtr.	3rd qtr.	Oct
Enterprises 1/	728.7	777.2	809.4	866.3	943.0	991.7	1,079.7	1,144.1	1,225.1	1,296.6	1,367.0	1,433.8	1,468.1				
Households	90.3	97.6	104.9	109.9	117.1	122.1	133.8	144.0	156.7	165.7	178.7	190.7	196.7				
Federal Government	77.9	78.9	81.0	81.6	83.7	87.5	91.4	90.5	97.0	106.9	108.0	108.3	108.3				
Other sociopolitical communities and social funds	23.3	23.8	24.2	25.4	26.8	27.4	28.3	28.5	29.7	29.6	29.5	30.3	30.2				
Other organizations 2/	39.0	41.1	39.6	40.1	47.1	49.0	51.3	55.7	59.8	62.7	67.5	67.8	69.7				
Total	959.2	1,018.6	1,059.1	1,123.3	1,217.7	1,277.5	1,384.5	1,462.8	1,568.3	1,661.5	1,750.7	1,830.9	1,873.0				
Short term	231.3	249.1	252.0	275.5	309.3	329.7	348.2	376.0	411.1	454.3	516.4	555.7	574.8				
Long term	727.9	768.5	807.1	847.8	908.4	947.8	1,036.3	1,086.8	1,157.2	1,207.2	1,234.3	1,275.2	1,298.2				

Sources: National Bank of Yugoslavia, Quarterly Bulletin; and data supplied by the Yugoslav authorities.

1/ Organizations of associated labor and self-managing communities of interest in the economic sector

2/ Noneconomic organizations, including some financial organizations

IV. Public Finance

1. The consolidated public sector

The public sector is defined to include the Federal Government, the governments of the six republics and two autonomous provinces, the governments of communes and cities, the social funds (e.g., for social security and the development of underdeveloped regions), and self-managing communities of interest for various services (e.g., health, education, child protection, social protection, culture, science, etc.). The governments are officially called sociopolitical communities, and their expenditure is called general expenditure or consumption. The expenditure of the communities of interest is called collective expenditure or consumption. These communities are set up at the level of communes; there is one for every noneconomic activity, and so in the 520 communes of Yugoslavia there are 4,768 communities of interest in the public sector.

The general needs met by government activities are financed out of taxes and customs duties, and the collective needs met by self-managing communities of interest out of the contributions, according to set rates, of workers and enterprises. The Federal Government determines the rates of customs duties and the basic turnover tax rate, and 50 per cent of the revenue raised from the latter accrues to republican and provincial governments. These governments and those of communes levy additional turnover taxes, as well as taxes on personal incomes (i.e., wages) and enterprise incomes.

Public sector bodies other than the Federal Government are required to balance their budgets. In practice they have usually achieved small surpluses (Table 30). The Federal Government budget has been in deficit in recent years, and this has been sufficiently large to produce a small deficit for the public sector as a whole, but in 1981 the federal deficit, equivalent to 0.1 per cent of GSP, was less than the surpluses elsewhere. But even in 1980, when the Federal Government deficit rose sharply compared with 1978 and 1979, the public sector deficit amounted to only 0.7 per cent of GSP.

The resolution on economic policy in 1980 required that revenues for general and collective needs should increase by less than the increase in total nominal incomes. In the event, the growth of revenue was held down to 25 per cent which, though higher than the 16 per cent originally planned, was considerably lower than that of nominal incomes which grew by 35 per cent, appreciably more rapidly than anticipated. The share of public sector revenue in total income thus fell from 24 per cent in 1979 to 22.4 per cent in 1980. The basic turnover tax rate was reduced from 14.5 per cent in 1979 to 14 per cent in 1980. The rates of turnover taxes at the republican, provincial, and communal levels were all raised in 1980. The resulting tax rates varied widely, but were in the ranges of 5-8 per cent for republics and provinces and 3-7 per cent for communes. Turnover tax revenues in 1980 were 27 per cent higher than in 1979; income tax revenues were 19 per cent higher; and receipts from customs

duties only 1 per cent higher, because of the real decline in imports and a shift in the structure away from the more heavily taxed items. Consolidated public sector expenditures rose by 27 per cent in 1980 as a result largely of higher expenditures for defense and social security transfers (Table 31).

The resolution on economic policy in 1981 called for the increase in revenues for general and collective needs to be at least 4 percentage points below the increase in nominal GSP. It was envisaged that this would permit an increase in collective consumption of 19 per cent in nominal terms. The basic turnover tax rate was raised to 17 per cent, but there were no changes in the rates of turnover tax at the level of republics, provinces, and communes. The increase in the basic turnover tax rate and the higher-than-expected growth in nominal incomes led to a faster growth in revenue than planned for governments other than the Federation and for self-managing communities of interest. Nevertheless, nominal expenditure did not increase to the same extent, and so large surpluses were accumulated. In July 1981 a law was introduced whereby sociopolitical organizations and self-managing communities of interest that realized revenues higher than planned were required to reduce tax and contribution rates in proportion to the surpluses. Despite this, public sector receipts remained high: they were 35 per cent higher in the first nine months of 1981 than in the same period of 1980. The receipts of the Federation were 47 per cent higher, those of republics and provinces 27 per cent higher, those of communes 29 per cent higher, and those of self-managing communities of interest 35 per cent higher.

2. The Federal Government budget

Additional information is available about the Federal Government budgets for 1981 and 1982 (Table 32). It became clear during the course of 1981 that revenues from customs duties would fall short of planned amounts because of the reduction in imports and the change in import structure. Although more revenue was sought from the contributions of republics and provinces, it was still decided to reduce expenditure in nominal terms. The reduction in real terms compared with the original expenditure plans was therefore very large, since inflation was almost twice as rapid as was originally anticipated. The cut-backs in nominal expenditure were spread across most categories. Those in real expenditure were concentrated on reductions in real incomes of federal employees, since employment was not reduced, and purchases of materials are not a large proportion of expenditure. The resulting deficit in 1981 is estimated to be larger in terms of dinars than was planned, although it remains only 0.1 per cent of GSP. This was financed as planned by borrowing Din 4.6 billion from the National Bank of Yugoslavia; some repayment of existing credits was also made so that net borrowing was Din 2.1 billion.

The budget for 1982 is based on a growth in expenditure of 23 per cent, the same as that projected for nominal GSP. Defense expenditures, which comprised 61 per cent of Federal Government expenditures in 1981, are budgeted to increase by 20 per cent in 1982 compared with a rise of

31 per cent in the preceding year. With the rise in salaries of Federal Government employees projected to continue to be very restrained in 1982, administration expenditures are budgeted to rise by only 15 per cent. Revenue is projected to grow more rapidly, at 26 per cent, so as to eliminate the deficit and create a surplus which will be used for repaying bank debt. The fastest growing component of revenue is to be receipts from customs duties and import fees which are budgeted to rise by 49 per cent. This large rise in part reflects the fact that a greater share of customs revenues will accrue to the Federal Government in 1982 and a lesser share will accrue to communities of interest for foreign economic relations. This in turn will allow the share of total revenue contributed by the republics and provinces to remain approximately constant.

Table 30. Yugoslavia Public Sector Operations by Level of Government

(In billions of dinars)

	1976	1977	1978	1979	1980 ^{1/}
Federal budget					
Revenues	64.9	80.0	72.6	93.6	109.4
Expenditures	75.5	89.0	77.8	97.3	129.7
Of which					
Transfers to other budgets	(5.4)	(6.1)	(7.0)	(10.5)	(14.3)
Transfers to funds and communities of interest	<u>(9.6)</u>	<u>(10.4)</u>	<u>(13.8)</u>	<u>(15.2)</u>	<u>(18.7)</u>
Surplus or deficit	-10.6	-9.0	-5.2	-3.7	-20.3
Budgets of republics and autonomous provinces					
Revenues	21.0	25.5	37.5	50.2	67.3
Of which					
Grants from other governmental units	(5.2)	(6.1)	(7.0)	(10.5)	(14.3)
Expenditures	21.9	25.3	37.1	50.1	64.6
Of which					
Transfers to other governmental units ^{2/}	<u>(1.7)</u>	<u>(2.5)</u>	<u>(3.0)</u>	<u>(4.9)</u>	<u>(5.3)</u>
Surplus or deficit	-0.9	0.2	0.4	0.1	2.7
Budgets of communes and cities					
Revenues	20.2	22.7	30.9	39.8	49.8
Of which					
Grants from other governmental units	(1.7)	(--)	(3.0)	(3.3)	(5.3)
Expenditures	20.5	26.8	31.5	38.5	48.4
Of which:					
Transfers to other governmental units	<u>(0.3)</u>	<u>(--)</u>	<u>(--)</u>	<u>(...)</u>	<u>(3.0)</u>
Surplus or deficit	-0.3	-4.1	-0.6	1.3	1.4
Social security funds ^{3/}					
Revenues	85.2	105.8	135.8	165.3	209.0
Of which					
Grants from federal budget	(7.8)	(7.1)	(12.4)	(15.2)	(18.7)
Grants from other budgets	(--)	(2.5)	(--)	()	()
Expenditures	<u>89.0</u>	<u>105.3</u>	<u>136.0</u>	<u>162.4</u>	<u>208.2</u>
Surplus or deficit	-3.8	0.5	-0.2	2.9	0.8
Funds and interest communities ^{4/}					
Revenues	67.1 ^{5/}	89.7	131.3	152.5	193.4
Of which					
Grants from federal budget	(1.8)	(3.3)	(1.4)	(1.6)	(3.0)
Expenditures	<u>63.4</u>	<u>84.5</u>	<u>130.7</u>	<u>152.1</u>	<u>188.7</u>
Surplus or deficit	3.7	5.2	0.6	0.3	4.7
Consolidated public sector ^{6/}					
Revenues	241.4	304.7	384.3	470.7	587.6
Expenditures	<u>253.3</u>	<u>311.9</u>	<u>389.3</u>	<u>469.8</u>	<u>598.3</u>
Surplus or deficit	-11.9	-7.2	-5.0	0.9	-10.7
Financing					
External, net	-1.5	-0.1	-0.1	--	--
Domestic, net	13.4	7.3	5.1	-0.9	10.7

Sources: Data supplied by the Yugoslav authorities, Sluzbeni List, National Bank of Yugoslavia, Annual Reports and Quarterly Bulletins; and IMF, Government Finance Statistics Yearbook

^{1/} Preliminary

^{2/} Not including agreed contributions to the federal budget

^{3/} Including communities for child protection and health, pension, and invalid insurance

^{4/} Excluding social security funds above and the fund for the development of under-developed regions. Data on these funds and interest communities are estimated by treating them as a residual using data on the consolidated public sector, grants, and transfers, and on expenditures and revenues of other levels of government

^{5/} Due to rounding errors, revenues were adjusted upward by Din 0.5 billion.

^{6/} Exclusive of grants and transfers among governmental units.

Table 31. Yugoslavia: Consolidated Revenues and Expenditures of the Public Sector 1/

(In billions of dinars)

	1975	1976	1977	1978	1979	1980 <u>2/</u>
Revenue						
Direct taxes <u>3/</u>	108.9	134.6	175.5	232.5	279.6	351.5
Indirect taxes <u>4/</u>	75.2	86.3	109.4	126.3	157.7	190.0
Other taxes and nontax revenue	<u>13.7</u>	<u>20.5</u>	<u>19.8</u>	<u>25.5</u>	<u>33.4</u>	<u>46.1</u>
Total revenue	197.8	241.4	304.7	384.3	470.7	587.6
Expenditure						
National defense and administration	49.6	57.5	71.5	83.9	103.8	140.8
Education	32.0	38.1	43.7	57.4	67.5	81.1
Social security and welfare	76.1	93.5	114.4	146.5	178.6	226.8
Interventions in the economy	13.9	19.6	28.0	38.1	42.2	51.7
Other expenditures <u>5/</u>	<u>28.2</u>	<u>44.6</u>	<u>54.3</u>	<u>63.4</u>	<u>77.7</u>	<u>97.9</u>
Total expenditure	200.4	<u>6/253.3</u>	311.9	389.3	469.8	598.3
Surplus or deficit	-2.6	-11.9	-7.2	-5.0	0.9	-10.7
Financing						
Foreign financing, net	-2.2	-1.5	-0.1	-0.1	--	--
Domestic financing, net	4.8	<u>7/ 13.4</u>	7.3	5.1	-0.9	10.7

Source: Data supplied by the Yugoslav authorities.

1/ Includes budgets, funds, and communities of interest at all levels of Government. Excludes the fund for the development of underdeveloped regions. Net of transfers among all public sector units.

2/ Preliminary.

3/ Includes taxes on incomes and profits of enterprises and individuals, social security contributions, employers' payroll or manpower taxes, and property taxes.

4/ Includes taxes on goods and services and on international trade and transactions.

5/ Includes expenditures for housing and communal amenities, investment, and subsidies for consumption.

6/ Total expenditures for this year have been determined by subtracting estimated expenditures by the fund for the development of the underdeveloped regions from total public sector expenditures as reported by the Yugoslav authorities.

7/ Residual.

Table 32. Yugoslavia: Budget of the Federation

(In billions of dinars)

	1977	1978	1979	1980	1981		1982 Budget <u>3/</u>
					Original budget <u>1/</u>	Latest estimates <u>2/</u>	
Revenue							
Customs duties and other import fees	39,755	23,333	24,591	20,694	35,437	21,043	30,288
Contributions from republics and provinces	38,996	20,827	28,436	38,469	52,562	63,773	80,378
General turnover and sales taxes	--	26,273	37,700	47,400	73,377	73,377	88,933
Other taxes	96	121	169	230	230	230	640
Nontax revenue	<u>1,165</u>	<u>2,047</u>	<u>2,681</u>	<u>2,501</u>	<u>2,850</u>	<u>2,850</u>	<u>3,636</u>
Total revenue	80,012	72,601	93,577	109,354	164,456	161,273	203,875
Expenditure							
Administration	10,908	13,066	15,227	18,574	21,380	20,231	24,579
Defense	38,131	42,595	55,084	76,149	101,894	100,028	122,685
Grants to republics and provinces	6,139	7,028	10,502	14,258	16,277	15,979	20,834
Grants to funds and communities of interest	10,410	12,441	14,794	18,700	25,237	24,896	30,920
Investment	547	551	621	818	215	874	300
Other or discrepancy	<u>22,847</u>	<u>2,205</u>	<u>468</u>	<u>1,173</u>	<u>489</u>	<u>1,401</u>	<u>2,231</u>
Total expenditure	88,982	77,886	97,272	129,672	165,592	163,409	201,519
Surplus or deficit (As a per cent of GSP)	-8,970 (-1.2)	-5,285 (-0.6)	-3,695 (-0.3)	-20,318 (-1.3)	-1,136 (-0.1)	-2,136 (-0.1)	2,356 (0.1)
Financing, net domestic <u>4/</u>							
	<u>3,970</u>	<u>5,285</u>	<u>3,239</u>	<u>20,318</u>	<u>1,136</u>	<u>2,136</u>	<u>-2,356</u>
Bond issues	3,980	--	--	13,344	--	--	--
National Bank credits	11,200 <u>5/</u>	9,487	8,451	9,200	4 600	4,600	--
Repayment of bank credits	-562 <u>5/</u>	-847	-1,655	-726	-2,974	-1,979	-1,562
Bond amortization	-3,621	-3,055	-2,857	-1,264	-205	-205	-450
Allocation to bud- getary reserves	-284	-300	-200	-236	-285	-280	-344
Other and residual	-2,305 <u>5/</u>	--	--	--	--	--	--

Source: Data supplied by the Yugoslav authorities.

1/ The preliminary budget estimates reported in EBS/81/5 (Corrected: 1/27/81).2/ The revised estimates made in December 1981, following the decision to reduce expenditure by Din 2.2 billion and repayment of bank credits by Din 1.0 billion, with a corresponding downward revision to revenue.3/ From the resolution for the Annual Plan for 1982.4/ There was no external financing of the budget.5/ National Bank credits and credits from other banks (included in the residual item) are net of repayments in 1977.

V. External Sector

1. Balance of payments and reserve developments, 1980-81

Yugoslavia's balance of payments deteriorated sharply in 1979; the current account deficit widened to a record US\$3.7 billion (6 per cent of GSP), and gross official reserves declined by US\$1.1 billion to US\$1.3 billion, less than one and a half months of imports from the convertible currency area (Tables 33-35 and 46). This deterioration reflected rapid domestic demand expansion, the impact of higher oil and other import prices, as well as the adverse effects of a major earthquake on tourist earnings and of unfavorable weather conditions on agriculture. The economic stabilization measures of 1980, combined with a large exchange rate depreciation, and the strengthening of these measures in 1981 contributed to a sharp improvement of the current account; the deficit was reduced by about US\$2.4 billion during 1980-81, and by 1981 it had reverted to its 1978 level of US\$1.3 billion. ^{1/} Gross official reserves were built up in both years and by the end of 1981 they reached an estimated US\$1.6 billion, equal to nearly two months of imports from the convertible area. In addition, reserves held by commercial banks amounted to an estimated US\$890 million at the end of 1981.

The current account deficit declined in 1980 to US\$2.3 billion (3.6 per cent of GSP), mainly due to a reduction in the trade deficit of US\$1.1 billion to US\$6 billion. The value of exports increased by 32 per cent owing both to an increase in volume (11 per cent) and in prices (Table 36). At the same time, imports rose by only 7 per cent because of a decline in volumes of over 10 per cent; the latter reflected both the reduction in domestic demand and drawdown of inventories accumulated in the previous year. Net invisible receipts rose by 6 per cent, due mostly to higher receipts from workers' net remittances, tourism, and investment works abroad. A marked increase in net capital flows, originating partly from greater short-term foreign borrowing, helped cover most of the current account deficit, and, together with net purchases from the Fund, enabled a modest accumulation in reserves.

Preliminary estimates for 1981 indicate a further sharp improvement in the current account deficit to US\$1.3 billion (2 per cent of GSP); the convertible current account deficit was reduced by US\$583 million to US\$1.6 billion. As in the previous year, the improvement derived largely from a better trade performance, with the trade deficit declining by US\$876 million to US\$5.2 billion. With the terms of trade remaining unchanged, the marked improvement in the trade balance in real terms originated mainly from a decline of about 8 per cent in import volume

^{1/} Based on recent information, the balance of payments outcome in 1981 was substantially better than indicated in the text above. The global current account deficit amounted to US\$750 million and the convertible deficit to US\$1.4 billion. However, disaggregated data are not available to enable a description and analysis of the revised outcome.

due to the reduction in real domestic demand, particularly fixed investment. The value of imports rose by only 3 per cent during the year, with imports from the convertible and nonconvertible area increasing by 2 per cent and 7 per cent, respectively. The deceleration in import growth was particularly marked in the latter part of the year; during July-December imports declined by 7 per cent compared with an increase of 15 per cent in the first half of the year. Available data for the first 11 months of 1981 show a decline in nominal terms of 8 per cent and 41 per cent, respectively, in imports of capital goods and consumer goods (Table 37). As a result, there were further shifts in the structure of imports; the share of capital goods declined by 2 percentage points to 18 per cent of total imports, and that of consumer goods decreased by 4 percentage points to 6 per cent. Export values rose by 15 per cent (see below). Net invisible receipts increased by 4 per cent; although receipts from tourism, workers' net remittances, and investment works abroad rose by 18-20 per cent, these gains were substantially offset by an increase of 54 per cent (US\$698 million) in interest payments. The latter increase was due both to higher interest rates abroad and the rise in debt.

Net capital inflows in 1981 were sharply lower than in the previous year. Medium- and long-term loans amounted to US\$1 billion, or about half the net inflow in 1980, mainly because of a sharp reduction in suppliers' credits for financing equipment imports; in addition, financial credits by the banking system were lower than in the previous year. Indebtedness on bilateral balances, which had increased sharply in the previous two years, largely due to higher energy imports from traditional suppliers in the nonconvertible area, was reduced in 1981 by an estimated US\$500 million to a little over US\$400 million. In contrast to the previous year, short-term capital net inflows were negligible. The large errors and omissions item recorded in 1980 and 1981 is believed to reflect mainly advance payments made in 1980 for imports recorded in the customs data in 1981. As in the previous year, the overall deficit (about US\$400 million) was financed by net purchases from the Fund, and there was a moderate increase in reserves.

External policies for 1982 aim at reducing the global and convertible current account deficit to US\$500 million (0.8 per cent of GSP), maintaining the level of reserves, and improving the structure of external debt. A further reduction in real domestic demand and flexible exchange rate policies will be the main instruments used for inducing a shift of resources into the tradeable goods sector. The targeted expansion of 8.5 per cent in the volume of exports is the key element in the planned improvement in the current account.

2. Review of export developments

a. Developments during 1970-79

(i) Growth and structure

During the decade of the 1970s exports grew at a modest rate. Between 1970 and 1979, exports of goods and nonfactor services (at constant 1972 prices) rose by less than 4 per cent per annum. Export performance was especially weak during the latter half of this period; between 1976 and 1979, the volume of exports of goods and nonfactor services declined and that of merchandise exports stagnated (Table 38). The share of exports in real GSP fell from 21 per cent to 17 per cent between 1970 and 1979, with most of the decline occurring in the last three years of this period.

Significant shifts took place in the structure of merchandise exports, both in terms of the commodity composition and geographical distribution. The share of primary products (agriculture, metals and minerals) in total exports declined from 45 per cent in 1970 to about one third in 1979, and that of manufactured exports (chemicals, machinery and transport equipment, other manufactures) rose from 55 per cent to 68 per cent. The commodity structure of exports became highly diversified; indices of dispersion calculated by UNCTAD show that export diversification in Yugoslavia is greater than in most other developing countries, and is comparable to developed countries. ^{1/} The high degree of diversification reflected the strategy to reduce vulnerability to protectionist pressures and to increase flexibility so as to respond to small market opportunities.

The regional distribution of exports changed substantially in the 1970s. The share of the CMEA and socialist countries in total exports increased from 33 per cent in 1970 to 42 per cent in 1979, owing mainly to an increase in the share of the U.S.S.R. market by 7 percentage points to 22 per cent. There was also a notable increase in export shares of the oil exporting countries from 2 per cent in 1970 to 9 per cent in 1979, but this occurred partly at the expense of a decline in the share of non-oil developing countries. The share of industrial countries declined correspondingly by 15 percentage points to 42 per cent between 1970 and 1979.

A cross-classification of exports by commodity composition and geographical distribution is available for the years 1970, 1975, and 1980 and is presented in Table 39. Between 1970 and 1980, the CMEA share rose in most export categories, particularly for food, electrical and transport machinery, and miscellaneous manufactures. The shift in export shares was partly related to the increase in prices of oil and gas imports, where the CMEA has traditionally been a major supplier, and the consequent need to contain indebtedness under bilateral payments arrangements. The CMEA share in total imports rose by 9 percentage points between

^{1/} UNCTAD, 1979, Handbook of International Trade and Development Statistics.

1970 and 1980 (owing entirely to higher imports from the U.S.S.R.), of which 5 percentage points was due to higher energy imports (Table 40). Shifts in export shares were also related to external demand conditions; for example, in agricultural products there was a reduction in dependence on Western industrial country markets, as in the case of raw meat, where exports to developing country markets were expanded after the restriction on baby beef exports to the EC in 1974; in the case of maize, there was a major reorientation away from industrial countries to the CMEA.

Since the early 1970s there has been a significant loss of market shares in the OECD. During 1973-79, Yugoslavia's manufactured exports (in U.S. dollars) to the OECD expanded by 11 per cent per annum compared to the growth of OECD markets (measured by OECD imports) of over 17 per cent per annum. Yugoslavia's loss of market shares in the OECD vis-à-vis developing countries is estimated at about 11 percentage points over the same period.

(ii) Factors affecting export performance

A variety of factors have contributed to the relatively poor performance of exports. The high degree of diversification, and the duplication of production in the various republics and provinces has resulted in a lack of specialization and suboptimal exploitation of economies of scale in production and marketing. Trade restrictions in some Western industrial countries have also dampened exports. However, the most important factor preventing the emergence of a dynamic export sector in the past decade was the pursuit of an inward-looking development strategy which depended on the expansion of domestic demand and on import substitution to generate growth. To a considerable extent, exporting has been perceived by enterprises as a peripheral activity since it has been traditionally more profitable to sell on the domestic market. As a result, an improvement in export performance was generally limited to periods of fairly restrictive demand policies. Export volumes rose substantially in 1972 and 1976, following the economic stabilization-cum-devaluation measures of 1971 and late 1974-75, respectively; in the intermediate periods, domestic demand expansion was generally strong and export growth weak.

The bias toward production for the domestic market rather than for exports was reflected in the allocation of investment funds and in the incentive structure. Commercial policies were mainly geared to protection of domestic industries. Such policies included quantitative restrictions on imports and licensing requirements. While average effective tariff rates were gradually reduced from 13 per cent in 1970 to 9 per cent in 1979 (Table 41), this was offset by an increase in additional charges (import surcharge, tax equalization charge, customs evidence tax), the combined effective rates of which rose from 9 per cent in 1970 to 17 per cent by 1979. Export incentives in the form of duty drawbacks and direct cash payments have been provided at both the Federal and republican

levels, and credit for export industries has been extended at subsidized rates. Adequate data on the extent of such subsidies are not available, but they have not been sufficiently large to offset the orientation toward the home market.

Exchange rate policy during 1970-79 was relatively passive except for periods when a severe deterioration in the balance of payments prompted implementation of corrective measures. Thus, relatively large devaluations took place in 1970 and at the end of 1974 in conjunction with restrictive demand measures. However, competitive gains from exchange rate adjustments tended to be eroded fairly rapidly. Some indicators of competitiveness are presented for the period 1975-80 in Table 38. Developments in the export trade weighted effective exchange rate, adjusted for unit labor costs, suggest a fairly significant loss of competitiveness between 1975 and 1978, with some improvement in 1979. Yugoslavia's export unit values in dinars increased less rapidly than domestic costs and prices between 1975 and 1979. Furthermore, export unit values in U.S. dollars increased at a higher rate than the weighted average export unit values of Western industrial trading partners. Separate price and volume data for Yugoslavia's exports to the convertible and nonconvertible area are not available. Indications are that export prices have been more favorable in the nonconvertible area in the past, but price differentials have reportedly narrowed recently. Price and quality factors appear to have contributed to the shifts in export shares to the nonconvertible area; an additional factor may be relatively greater stability in external demand in the nonconvertible area, where trade is conducted to a considerable extent on the basis of long-term contracts.

b. Developments in 1980-81

Export developments varied considerably during 1980-81, with large shifts in exports between the convertible and nonconvertible areas. Restrictive demand policies together with the June 1980 devaluation induced a marked expansion in exports in 1980, in contrast to the stagnation of the previous year. Exports rose by 32 per cent, with much of this growth originating from exporting to the nonconvertible area. Exports to the nonconvertible area expanded by 64 per cent, compared to an increase of 19 per cent in exports to the convertible area. To a large extent, this reflected the need to reduce indebtedness under bilateral balances. The shift in exports to the nonconvertible area was especially marked in the second half of 1980, and continued in the first half of 1981. In the latter period, exports to the convertible area stagnated, while those to the nonconvertible area increased by 65 per cent. However, exports to the convertible area picked up from July and accelerated rapidly in the last quarter of 1981. During the second half of the year, convertible exports rose by 21 per cent, while exports to the nonconvertible area declined. For 1981 as a whole, exports to the convertible and nonconvertible area increased by an estimated 10 per cent and 24 per cent, respectively. Continued domestic demand restraint, an

active exchange rate policy, and improvement in the position on bilateral balances contributed to the strengthening of export performance to the convertible area.

In 1980 Yugoslavia entered into a new cooperation agreement with the EC. The agreement provides Yugoslavia with preferential access to the EC market for its industrial products, as well as improved access for certain agricultural products particularly beef, tobacco, and wine. Some 70 per cent of Yugoslavia's industrial products will be admitted duty-free without limit. Twenty-nine reserved items will continue to be subject to ceilings; these include wood products, shoes, furniture, mineral and other fertilizers, and rubber trees. For six designated nonferrous metals, a gradual dismantling of tariffs is envisaged. Textile products remain subject to "voluntary restraint" but will be eligible for expanded quotas under the Community's GSP scheme.

The EC quota on Yugoslav beef exports was set in 1980 at 34,800 metric tons annually (2,900 tons monthly). Following Greece's accession to the EC, Yugoslav beef exports to Greece, which had amounted to 35,000-45,000 tons annually, became subject to EC common tariffs and other levies, resulting in a more than doubling of the amount of duties and other charges per ton of Yugoslav beef in Greece. Consequently, such exports became uncompetitive and there was a halt in beef exports to Greece. In late 1981 the amount of such duties and charges was sharply reduced, thus improving prospects for beef exports to Greece. Yugoslavia has requested an increase in the EC quota for its beef exports, to take into account accession of Greece to the EC.

3. External debt

Yugoslavia has relied extensively on medium- and long-term borrowing to finance the overall current account deficit. During the period 1976-80, medium- and long-term debt (excluding purchases from the IMF) increased at an average annual rate of 22 per cent (Table 42). By the end of 1980, such debt amounted to US\$16.2 billion, equal to 26 per cent of GSP compared with 22 per cent in 1976. Of this amount, US\$14.7 billion, or 90 per cent was repayable in convertible currencies. The growth of debt decelerated considerably in 1981, when it rose by 6 per cent to an estimated US\$17.2 billion (27 per cent of GSP), of which US\$15.6 billion represented convertible debt.

Available information on the structure and composition of medium- and long-term debt indicates that less than 30 per cent of the total is public or publicly-guaranteed. At the end of December 1980, disbursed public and publicly-guaranteed debt amounted to US\$4.5 billion, of which 49 per cent comprised bilateral loans (mainly from the U.S.S.R., the Federal Republic of Germany, the United States, and Kuwait), 31 per cent represented multilateral loans (mostly from the IBRD), and 19 per cent was from financial institutions. Data on total disbursed convertible debts with maturities over one year, including private debt, show that at the end of September 1981 about 50 per cent was in the form of suppliers'

credits mainly for financing imports of equipment. About one-third of the total is in the form of financial credits (excluding purchases from the IMF) obtained by the National Bank of Yugoslavia and by commercial banks for financing the current account deficit. ^{1/} About 9 per cent of the total comprised loans from the IBRD, and about 7 per cent represented refinancing loans. Medium- and long-term debt repayable in bilateral currencies comprises suppliers' credits, largely for imports of equipment.

Adequate information on the maturity structure and terms of debts is not available. Based on loans with maturities over one year contracted during the first four months of 1981, about 18 per cent of total loans fell in the maturity category of 1-5 years, about 70 per cent was in the category 5-10 years, and the remainder was with maturities over 10 years. With regard to the interest rate structure, nearly 80 per cent of these loans carried a floating rate; for financial credits, the spread over LIBOR was generally in the range of 1.125 per cent to 1.25 per cent, and for suppliers' credits the spread was much lower, between 0.5 and 0.75 per cent. About 9 per cent of the loans were contracted at fixed interest rates of less than 8 per cent, and 11 per cent at fixed rates of 8-12 per cent.

Data on short-term debt are limited to foreign liabilities of the commercial banks. These are in the form of bank credits and deposits and are largely for trade financing. At the end of September 1981, total short-term debt outstanding amounted to US\$1.8 billion, of which US\$1.4 billion comprised bank credits. Between 1978 and 1980 short-term debt increased by close to \$1 billion, but showed little growth in 1981.

Debt service payments on convertible debts of over one year (excluding IMF) rose from US\$1.5 billion in 1977 to US\$2.9 billion in 1980, and an estimated US\$3.7 billion in 1981 (Table 43). Service payments on such debts have risen from 17 per cent of exports of goods and services to the convertible area in 1977 to an estimated 22 per cent in 1981. For 1982, debt service in convertible currencies is projected at US\$4 billion, but the debt service ratio is projected to fall to about 21 per cent because of the marked expansion in projected export receipts. Including debt service repayable in bilateral currencies, the debt service ratio rose from about 16 per cent in 1977 to an estimated 20 per cent in 1981 and is projected to decline to 17 per cent in 1982. As a proportion of GSP, total debt service (excluding IMF) has risen by about 2 percentage points between 1977 and 1981 to 6.4 per cent.

^{1/} Such financial credits represent foreign liabilities of the banking system and are included in the item "net foreign assets" in the monetary survey, but are included above-the-line in long-term capital in the balance of payments.

4. Exchange and trade policies

a. Exchange rate policy

Since July 12, 1973, the dinar has not been maintained within announced margins and the exchange rate has been modified at frequent intervals by the National Bank, taking into account particularly the rates vis-a-vis the U.S. dollar and the deutsche mark. The Law on Foreign Exchange Operations and Foreign Credit Relations in effect since March 1977 stipulates that the Federal Assembly shall formulate exchange rate policy and determine the guidelines for the adoption of measures pertaining to the implementation of the policy. It also states that a realistic exchange rate policy shall be an important part of the country's economic and foreign exchange policy. The National Bank of Yugoslavia in cooperation with the republican and provincial national banks implement the exchange rate policy. The Federal Executive Council, which determines the exchange rate of the dinar, reports periodically to the Federal Assembly on the exchange rate policy.

Following frequent small exchange rate adjustments in 1978-79, on June 6, 1980, the dinar was depreciated by 23 per cent (the dinar/dollar rate was changed from US\$1 = Din 21 to US\$1 = Din 27.3). This depreciation was aimed at compensating for price and cost differentials vis-à-vis major trading partners, improving export competitiveness, and offsetting the impact of the removal of the 10 per cent import surcharge. To monitor exchange rate developments, the Yugoslav authorities currently use a basket of currencies weighted by their shares in total payments. In terms of this basket, the nominal effective exchange rate of the dinar depreciated by 30 per cent during 1980, mainly due to the June action (Table 44). The acceleration of domestic cost and price increases during the second half of 1980 partly eroded the competitive gains accruing from the June devaluation; during 1980, the effective exchange rate, adjusted for relative wholesale prices, depreciated by about 10 per cent. In the first half of 1981, the effective exchange rate depreciated by a small amount as the concern about domestic inflation led to a conservative exchange rate policy. However, beginning in July, a more active exchange rate policy was pursued with a view to stimulating exports. As a result, during 1981 as a whole, the nominal effective exchange rate depreciated by about 23 per cent. During January 1982 the active exchange rate policy was continued and the nominal effective exchange rate depreciated further by about 5 per cent.

b. Changes in exchange and trade regulations in 1981 ^{1/}

All commodities included in the foreign trade nomenclature are classified in three main categories, largely in accordance with the manner in which exchange is made available: LB--liberalized goods; RK

^{1/} A description of the exchange and trade system as of December 31, 1980 is given in the Annual Report on Exchange Arrangements and Exchange Restrictions, 1981. Institutional aspects of the decentralized exchange allocation system are described in the Appendix.

and DK--goods subject to individual quotas in quantity and dinar terms, respectively; and D--goods subject to ad hoc licensing. In April 1981 a large number of commodities were shifted between categories. On the import side, 1,012 items were shifted to the LB list (277 from the RK list, 724 from the DK list, and 11 from the D list). At the same time, 19 items were shifted from the LB list to the restricted lists (12 items to the RK list and 7 to the D list). In addition, 24 items were shifted from DK to RK. The items liberalized affected many different types of commodities including agricultural products, raw materials, and consumer goods. Partly as a result of these changes, the value of imports under the LB category rose from 42 per cent of total imports in 1980 to 48 per cent during the first 11 months of 1981 (Table 45). On the export side, 41 items were shifted from D to LB and 26 items were shifted from LB to D; the latter group largely comprised agricultural and mineral products in short local supply.

In July 1981 the export and import of Yugoslav banknotes was limited to Din 1,500 per person for the first trip during the year, with no allowances for subsequent trips during the same year. Previously the limit had been Din 1,500 per person per trip. This restriction aimed at stemming the outflow of dinars which were being sold abroad at below the official exchange rate and which were being used to buy consumer goods and other imports in excess of permitted levels. Effective January 1, 1982, the amounts of Yugoslav banknotes which could be brought in, or taken out of the country during the year were established at Din 1,500 per person for the first trip and Din 200 per person for each subsequent trip.

Since late 1980 broken cross rates existed in the Yugoslav exchange market and in the first half of 1981 the breaks became quite marked. In July and early August dinar exchange rates were adjusted so as to reduce the differentials between cross rates prevailing in Yugoslavia and in the principle foreign exchange markets abroad, and by August 12, 1981 broken cross rates were eliminated.

In August 1981 new regulations were issued which exempted sales of domestically manufactured goods (except foodstuffs, cosmetics, liquor and petrol) from turnover taxes if such goods were purchased with dinars obtained by sales of foreign exchange held by natural citizens and juridical persons in a foreign exchange account or foreign exchange savings deposit. These tax exemptions also apply to foreigners if the relevant commodity purchases were made in dinars obtained from the sale of foreign exchange to an authorized bank. In both cases, the certificate of sale of foreign exchange issued by the authorized bank is necessary proof to obtain the turnover tax exemptions; this certificate is not negotiable.

In December 1981, the value of duty free imports that could be brought into the country by returning resident travelers was reduced from Din 1,500 per person to Din 200 per person.

Table 33. Yugoslavia: Balance of Payments, 1978-82

(In millions of U.S. dollars)

	1978	1979	1980	1981 Latest estimate	1982 Pro- jection
A. Goods and services and unrequited transfers					
transfers	-1,283	-3,661	-2,291	-1,280	-500
Exports, f.o.b.	5,809	6,794	8,978	10,350	12,600
Imports, c.i.f.	-10,439	-14,019	-15,064	-15,560	-18,033
Trade balance	-4,630	-7,225	-6,086	-5,210	-5,433
Services and unrequited transfers (net)	3,347	3,564	3,795	3,930	4,933
Credits:					
Workers' and emigrants' remittances	2,950	3,393	4,050	4,820	5,100
Travel	1,130	1,183	1,645	1,975	2,500
Transportation	1,200	1,405	1,669	1,825	2,275
Interest	170	188	197	376	390
Other	810	1,313	1,761	2,089	2,093
Total	6,260	7,482	9,322	11,085	12,358
Debits:					
Workers' and emigrants' remittances	-1,280	-1,683	-2,511	-2,997	-2,950
Travel	-128	-155	-130	-160	-135
Transportation	-590	-674	-837	-870	-950
Interest	-495	-821	-1,281	-1,979	-2,165
Other	-420	-585	-768	-1,149	-1,225
Total	-2,913	-3,918	-5,527	-7,155	-7,425
B. Long-term capital					
Long-term loans received (net) <u>1/</u>	1,706	1,452	2,145	1,009	410
Drawings	3,146	3,154	4,151	3,220	2,800
Repayments	-1,440	-1,702	-2,006	-2,211	-2,390
Long-term loans extended (net)	-106	-125	-221	-250	-270
Total	1,600	1,327	1,924	759	140
C. Bilateral balances	-65	742	354	-500	70
D. Short-term capital (net) <u>2/</u>	82	218	739	11	-500
E. Allocation of SDRs	--	37	37	38	--
F. Errors and omissions	37	-9	-935	577	198
G. Total (A through F)	371	-1,346	-172	-395	-592
H. Reserve movements					
Use of Fund credit	-21	218	304	550	592
SDRs	-7	-34	41))
Reserve position in the Fund	-81	81	--))
Gold	-5	-4	-5	) -155) --
Official foreign exchange (increase -)	-257	1,085	-168))
Total	-371	1,346	172	395	592
Memorandum item:					
Current account deficit as a percentage of gross social product	2.6	6.0	3.6	2.0	0.8

Sources. National Bank of Yugoslavia; and staff estimates.

1/ Includes medium- and long-term borrowing by the National Bank (except net purchases from the Fund), and by commercial banks

2/ Includes short-term borrowing by commercial banks.

Table 34. Yugoslavia: Balance of Payments (Convertible
Currency Area), 1978-82
(In millions of U.S. dollars)

	1978	1979	1980	1981 Latest estimate	1982 Pro- jection
A. Goods and services and unrequited transfers	-1,272	-3,304	-2,203	-1,620	-500
Exports, f.o.b.	3,971	4,766	5,656	6,230	7,730
Imports, c.i.f.	-8,373	-11,336	-11,321	-11,540	-12,885
Trade balance	-4,402	-6,570	-5,665	-5,310	-5,155
Services and unrequited transfers (net)	3,130	3,266	3,462	3 690	4,655
B. Long-term capital					
Long-term loans received (net) <u>1/</u>	1,483	1,335	2,065	999	460
Drawings	2,819	2,903	3,909	3,060	2,650
Repayments	-1,336	-1,568	-1,844	-2,061	-2,190
Long-term loans extended (net)	-97	-123	-235	-235	-250
Total	1,386	1,212	1,830	764	210
C. Short-term capital (net) <u>2/</u>	82	218	739	11	-500
D. Allocation of SDRs	--	37	37	38	--
E. Errors and omissions	175	491	-575	412	198
F. Total (A through E)	371	-1,346	-172	-395	-592
G. Reserve movements					
Use of Fund credit	-21	218	304	550	592
SDRs	-7	-34	41))	
Reserve position in the Fund	-81	81	--)	-155)	--
Gold	-5	-4	-5))	
Official foreign exchange (increase -)	-257	1,085	-168))	
Total	-371	1,346	172	395	592

Sources: National Bank of Yugoslavia; and staff estimates.

1/ Includes medium- and long-term borrowing by the National Bank (except net purchases from the Fund), and by commercial banks.

2/ Includes short-term borrowing by commercial banks.

Table 35. Yugoslavia: Balance of Payments
(Nonconvertible Currency Area), 1978-82

(In millions of U.S. dollars)

	1978	1979	1980	1981 Latest estimate	1982 Pro- jection
A. Goods and services and unrequited transfers	<u>-11</u>	<u>-357</u>	<u>-88</u>	<u>340</u>	<u>--</u>
Exports, f.o.b.	1,838	2,028	3,322	4,120	4,870
Imports, c.i.f.	<u>-2,066</u>	<u>-2,683</u>	<u>-3,743</u>	<u>-4,020</u>	<u>-5,148</u>
Trade balance	-228	-655	-421	100	-278
Services and unrequited transfers (net)	217	298	333	240	278
B. Long-term capital					
Long-term capital (net)	223	117	80	10	-50
Drawings	327	251	242	160	150
Repayments	-104	-134	-162	-150	-200
Long-term loans extended (net)	<u>-9</u>	<u>-2</u>	<u>14</u>	<u>-15</u>	<u>-20</u>
Total	214	115	94	-5	-70
C. Errors and omissions	-138	-500	-360	165	--
D. Total (A through C)	65	-742	-354	500	-70
E. Bilateral balances (increase in assets -)	-65	742	354	-500	70

Sources: National Bank of Yugoslavia; and staff estimates.

Table 36. Yugoslavia: Foreign Trade Indicators
 (Percentage change over previous year, in terms
 of U.S. dollars)

	1976	1977	1978	1979	1980	<u>1981</u> Latest estimate
Exports						
Value	20.1	8.0	11.9	16.9	32.1	15.3
Volume	15.4	-2.7	2.7	1.6	11.0	3.0
Price	4.0	11.0	9.0	15.0	19.0	12.0
Imports						
Value	-7.4	32.5	6.6	34.3	7.4	3.3
Volume	-10.1	16.6	1.5	12.9	-10.5	-7.8
Price	3.0	13.6	5.0	19.0	20.0	12.0
Terms of trade	1.0	-2.6	3.8	-4.3	-1.0	--

Sources: Data supplied by the Yugoslav authorities; IMF, International Financial Statistics; and staff calculations.

Table 37 Yugoslavia. Commodity Composition of Foreign Trade

Economic classification	Exports				Imports							
	Percentage share of total		Percentage change over previous year 1/		Percentage share of total		Percentage change over previous year 1/					
	1979	1980	1981 2/	1980	1979	1980	1981 2/	1979	1980	1981 2/		
	100.0	100.0	100.0	14.5	32.1	17.4	100.0	100.0	100.0	28.8	7.5	3.8
Raw materials and semifinished goods	53.5	51.0	49.7	23.5	26.3	10.7	64.7	70.6	77.4	31.5	19.0	13.6
Capital goods and equipment	17.5	15.2	15.0	0.4	17.8	14.8	24.4	19.5	17.9	22.8	-17.7	-8.0
Consumer goods	29.0	33.8	35.3	9.1	50.9	29.8	10.9	9.9	5.7	27.8	-1.1	-40.6
SITC classification	100.0	100.0	100.0	14.5	32.1	17.4	100.0	100.0	100.0	28.8	7.5	3.8
Food	8.3	9.5	8.6	-4.9	48.6	3.5	7.2	6.4	5.0	57.0	1.2	-18.3
Beverages and tobacco	2.2	1.9	2.1	13.9	16.8	29.0	0.2	0.2	0.1	57.5	10.9	-43.9
Raw materials	9.2	7.4	5.2	31.4	7.4	-20.7	9.2	10.2	10.4	17.2	28.1	5.8
Fuels and lubricants	3.0	2.6	1.9	32.7	13.3	-14.9	17.4	23.6	24.0	56.6	57.9	4.7
Animal and vegetable fats	0.7	0.2	0.1	182.4	-58.7	-52.1	0.2	0.6	0.6	-11.3	185.8	56.1
Chemicals	9.6	11.3	12.8	32.2	58.8	37.1	11.3	12.1	12.1	27.4	10.4	14.8
Manufactured goods and equipment	23.6	22.2	22.5	22.0	24.2	18.8	15.9	15.8	15.8	20.3	5.9	11.0
Electrical and transport machinery	29.8	28.4	27.8	7.6	26.4	15.2	34.4	28.0	28.0	22.1	-16.2	-0.8
Miscellaneous manufactured goods	13.3	16.2	18.7	8.4	56.4	38.8	4.1	3.0	3.0	24.4	-24.4	-2.7
Other	0.3	0.3	0.3	-45.8	77.1	-11.3	0.1	0.1	0.1	-21.1	-51.7	-71.3

Source Indeks.

1/ Value data converted at statistical exchange rates.

2/ January-November.

Table 38. Yugoslavia: Indicators of Export Performance, 1975-80

	1975	1976	1977	1978	1979	1980
Growth rates (in per cent)						
Exports of goods and non-factor services (at constant 1972 prices)	-1.8	15.0	-5.4	-0.9	-0.3	8.9
Merchandise export volume	-2.3	15.4	-2.7	2.7	1.6	11.0
Merchandise export values (in terms of current U.S. dollars)	7.0	20.1	8.0	11.9	16.9	32.1
Ratio of exports of goods and nonfactor services to GSP (at 1972 prices)						
	20.5	22.6	19.8	18.4	17.1	18.2
Indicators of competitiveness (1975 = 100)						
Export trade-weighted effective exchange rate (nominal) <u>1/</u>	100.0	102.4	97.4	90.2	87.3	67.7
Adjusted for relative wholesale prices	100.0	101.4	100.0	96.0	97.1	94.6
Adjusted for relative unit labor costs	100.0	104.4	106.3	105.4	101.5	97.0
Relative export unit values (in U.S. dollar terms) <u>2/</u>	100.0	104.1	107.6	103.0	103.9	109.5
Export unit values in dinars/unit labor costs <u>3/</u>	100.0	99.1	100.1	95.9	96.9	128.8
Export unit values in dinars/consumer prices <u>3/</u>	100.0	100.5	100.7	98.1	94.0	103.5
Export unit values in dinars/retail prices <u>3/</u>	100.0	97.8	96.6	94.1	91.5	109.9

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Weighted by exports to Western trading partners in 1975.

2/ Export unit values of Yugoslavia in relation to a weighted average of export unit values of Western trading partners.

3/ Export unit values of Yugoslavia in relation to costs and prices in Yugoslavia.

Table 39 Yugoslavia: Exports by Commodity Composition and Geographical Distribution
(Percentage share)

SITC Classification Geographical Distribution	Beverages and Tobacco		Fuels and Lubricants		Animal and Vegetable Fats		Chemical Products		Manufactured Goods and Equipment		Electrical and Transport Machinery		Miscellaneous Manufactured Goods		Other Total	
	Food	Raw Materials	Crude oil	Other												
1970																
Developed countries	84 (64)	73 (56)	--	84 (37)	100 (50)	35 (23)	59 (43)	31 (20)	60 (33)	100	56					
Of which: EC	2	7	--	--	--	11	11	27	2	--	11					
Less developed countries	--	(1)	--	--	--	(1)	(4)	(2)	--	--	(2)					
Of which: Oil exporting	14	20	--	16	--	54	30	42	38	--	33					
CMEA and other socialist countries	(4)	(6)	--	--	--	(31)	(6)	(24)	(24)	--	(14)					
Of which: U.S.S.R.	100	100	--	100	100	100	100	100	100	100	100					
1975																
Developed countries	73 (50)	55 (46)	--	81 (42)	100 (50)	19 (17)	33 (17)	21 (16)	40 (22)	100	36					
Of which: EC	7	13	--	3	--	17	12	35	4	--	17					
Less developed countries	(3)	(5)	--	--	--	(10)	(9)	(6)	(4)	--	(6)					
Of which: Oil exporting	20	32	--	16	--	64	55	44	56	--	47					
CMEA and other socialist countries	(9)	(16)	--	(3)	--	(36)	(22)	(23)	(45)	--	(25)					
Of which: U.S.S.R.	100	100	--	100	100	100	100	100	100	100	100					
1980																
Developed countries	53 (31)	54 (46)	--	81 (66)	55 (20)	24 (14)	40 (25)	27 (23)	36 (19)	90	37					
Of which: EC	14	20	--	1	5	18	17	21	10	5	17					
Less developed countries	(9)	(5)	--	--	--	(14)	(12)	(11)	(8)	(3)	(10)					
Of which: Oil exporting	33	26	--	18	40	58	43	52	54	5	46					
CMEA and other socialist countries	(25)	(11)	--	(1)	--	(38)	(17)	(31)	(45)	(3)	(28)					
Of which: U.S.S.R.	100	100	--	100	100	100	100	100	100	100	100					
1981 Estimate																
Developed countries	56 (33)	57 (47)	--	90 (71)	45 (18)	15 (8)	36 (22)	27 (23)	28 (14)	91	32					
Of which: EC	8	18	--	1	10	22	20	22	12	--	18					
Less developed countries	(3)	(5)	--	--	--	(11)	(9)	(7)	(5)	(3)	(11)					
Of which: Oil exporting	36	61	--	9	45	63	44	51	60	9	49					
CMEA and other socialist countries	(11)	(19)	--	(3)	--	(41)	(17)	(14)	(24)	(3)	(28)					
Of which: U.S.S.R.	100	100	--	100	100	100	100	100	100	100	100					

Source: Data provided by the Yugoslav authorities

Table 40 Yugoslavia: Imports by Commodity Composition and Geographical Distribution
(Percentage share)

SITC Classification Geographical Distribution	Beverages and Tobacco		Fuels and Lubricants		Animal and Vegetable Fats		Chemical Goods and Equipment		Electrical and Transport Machinery		Miscel- laneous Manufactured Goods		Other Total	
	Food	Raw Materials	Crude oil	Other	Crude oil	Other	Crude oil	Other	Crude oil	Other	Crude oil	Other	Crude oil	Other
1970														
Developed countries	35	100	—	32	80	82	75	82	82	75	—	69	—	69
Of which: EC	(16)	(50)	(—)	(24)	(25)	(56)	(54)	(60)	(60)	(54)	(—)	(46)	(—)	(46)
Less developed countries	52	—	65	—	10	2	1	2	2	1	—	10	—	10
Of which: Oil exporting	(5)	(—)	(65)	(—)	(—)	(1)	(—)	(—)	(—)	(—)	(—)	(3)	(—)	(3)
CMEA and other socialist countries	13	—	35	68	10	16	24	16	16	24	—	21	—	21
Of which: U S S R.	(1)	(—)	(35)	(20)	(5)	(5)	(3)	(3)	(3)	(3)	(—)	(6)	(—)	(6)
Total	100	100	100	100	100	100	100	100	100	100	—	100	—	100
1975														
Developed countries	31	22	—	19	83	80	80	83	83	80	100	61	100	61
Of which: EC	(13)	(4)	(—)	(15)	(32)	(60)	(60)	(59)	(59)	(60)	(10)	(41)	(10)	(41)
Less developed countries	54	41	76	—	13	2	—	1	1	—	—	14	—	14
Of which: Oil exporting	(1)	(—)	(76)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(7)	(—)	(7)
CMEA and other socialist countries	15	37	24	81	4	18	20	16	16	20	—	25	—	25
Of which: U S S R.	(3)	(—)	(24)	(49)	(—)	(4)	(3)	(6)	(6)	(3)	(—)	(10)	(—)	(10)
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1980														
Developed countries	51	65	—	17	50	78	80	83	83	80	82	53	82	53
Of which: EC	(18)	(—)	(—)	(7)	(17)	(55)	(57)	(59)	(59)	(57)	(9)	(35)	(9)	(35)
Less developed countries	37	19	56	—	37	1	1	—	—	1	—	17	—	17
Of which: Oil exporting	(3)	(—)	(55)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(10)	(—)	(10)
CMEA and other socialist countries	12	16	44	83	13	21	19	17	17	19	18	30	18	30
Of which: U S S R.	(1)	(—)	(44)	(63)	(6)	(5)	(4)	(6)	(6)	(4)	(18)	(18)	(18)	(18)
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1981 Estimate														
Developed countries	54	53	—	19	67	76	73	81	81	73	60	53	60	53
Of which: EC	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(36)	(—)	(36)
Less developed countries	34	13	53	—	4	1	1	—	—	1	—	15	—	15
Of which: Oil exporting	(—)	(—)	(53)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(9)	(—)	(9)
CMEA and other socialist countries	12	34	47	81	29	23	26	19	19	26	40	32	40	32
Of which: U S S R.	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(—)	(19)	(—)	(19)
Total	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source. Data provided by the Yugoslav authorities.

Table 41. Yugoslavia: Average Tariffs by Customs Position

(In per cent)

Customs Position	1976	1977	1978	1979	1980	1981 Jan.-Nov.
Live animals and animal products	5.7	5.8	6.5	8.7	9.3	8.7
Vegetable products	3.1	2.3	2.5	4.6	3.7	3.8
Fats, oils, and waxes	4.9	5.6	5.2	3.8	7.4	7.2
Food industry products, drinks, tobacco	5.0	4.8	5.2	6.2	5.9	6.6
Minerals	5.2	1.9	1.9	0.9	1.2	1.2
Chemicals	8.8	9.1	8.5	7.9	7.8	7.8
Plastics and rubber	11.9	12.1	11.7	11.2	10.7	10.2
Leather and furs	4.5	5.9	4.4	1.9	1.1	2.2
Wood and veneer	9.0	6.0	5.5	5.3	4.7	5.1
Cellulose and paper	11.1	8.7	9.2	8.5	7.8	8.2
Textiles	9.6	9.7	9.1	9.5	9.1	9.1
Clothing, hats, umbrellas, etc.	20.2	21.4	20.2	17.6	17.4	17.2
Manufactures of stone, cement, asbestos, ceramics, glass	12.3	12.3	12.6	12.8	12.5	13.3
Pearls, precious stones and metals, etc.	7.1	6.8	7.7	7.4	8.7	13.6
Metals and metal products	10.2	10.7	10.4	10.3	9.6	9.3
Machines, apparatus, electrotechnical equipment	13.9	15.1	14.3	13.2	12.4	12.7
Trucks, planes and their spares, ships, etc.	16.5	16.4	15.3	15.3	13.6	14.1
Instruments	11.6	12.1	11.2	9.8	9.0	8.9
Arms and ammunition	17.1	10.4	7.3	23.5	24.3	24.8
Miscellaneous goods	18.1	18.0	17.7	16.3	16.0	15.9
Works of art, collections, and antiques	--	3.1	2.7	3.2	3.0	1.6
Total	10.1	10.1	9.8	8.9	7.6	7.1

Source: Data supplied by the Yugoslav authorities.

Table 42. Yugoslavia: Disbursed External Debt 1/
(In millions of U.S. dollars)

	1976	1977	1978	1979	1980	1981 Estimate	1982 Projection
Medium- and long-term debt, <u>2/</u> excluding IMF	7,311	8,931	11,163	13,846	16,246	17,245	17,653
Repayable in convertible currencies	(6,377)	(7,804)	(9,801)	(12,356)	(14,704)	(15,643)	(16,101)
Repayable in bilateral currencies	(934)	(1,127)	(1,362)	(1,490)	(1,542)	(1,602)	(1,552)
Short-term debt, <u>3/</u> repayable in convertible currencies	250	350	432	650	1,389	1,400	900
Outstanding IMF credit (net)	371	259	238	456	760	1,310	1,902
Total (A + B + C)	7,932	9,540	11,833	14,952	18,395	19,955	20,455
Memorandum item:							
Ratio to GSP (in per cent)							
Medium- and long-term convertible debt, excluding IMF	19.6	19.4	20.3	20.1	23.4	24.7	25.7
Medium- and long-term total debt, excluding IMF	22.4	22.3	23.1	22.6	25.9	27.2	28.2

Sources: Data provided by the Yugoslav authorities; and staff estimates.

1/ Values converted at statistical exchange rates.

2/ Original maturity over one year.

3/ Original maturity up to and including one year; comprises foreign liabilities of commercial banks.

Table 43. Yugoslavia: External Debt Service Payments on Medium- and Long-Term Debt, 1/ 1977-82

(In millions of U.S. dollars)

	1977	1978	1979	1980	1981 Esti- mate	1982 Pro- jection
A. Repayable in convertible currencies, excluding IMF						
Debt service	1,492	1,774	2,287	2,899	3,705	4,022
Amortization	(1,114)	(1,336)	(1,568)	(1,844)	(2,061)	(2,190)
Interest	(378)	(438)	(719)	(1,055)	(1,644)	(1,832)
B. Repayable in bilateral currencies						
Debt service	163	121	171	207	194	255
Amortization	(149)	(104)	(134)	(162)	(150)	(200)
Interest	(14)	(17)	(37)	(45)	(44)	(55)
C. On debt to IMF						
Debt service	148	114	80	101	148	163
Repurchases	(124)	(94)	(59)	(70)	(88)	(45)
Charges	(24)	(20)	(21)	(31)	(60)	(118)
D. Debt service						
Convertible (A + C)	1,640	1,888	2,367	3,000	3,853	4,185
Total (A + B + C)	1,803	2,009	2,538	3,207	4,047	4,440
E. Debt service ratios <u>2/</u> (in per cent)						
Convertible currencies, excluding IMF	17.2	17.8	19.3	19.9	21.9	20.5
Total, excluding IMF	15.6	15.5	17.2	17.0	19.8	17.1
Memorandum item:						
Interest on short-term debt	16	20	44	150	230	155

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Debts with original maturity of over one year.

2/ Ratio of debt service to exports of goods and services.

Table 44. Yugoslavia: Effective Exchange Rates

(May 1980 = 100)

End of Period	Nominal Effective Exchange Rate <u>1/</u>	Real Effective Exchange Rate <u>2/</u>
1979 December	107.7	99.3
1980 March	108.8	106.5
May	100.0	100.0
June	75.9	77.6
July	76.7	80.0
August	76.6	81.6
September	75.6	84.3
October	76.3	88.4
November	75.6	89.8
December	75.4	89.6
1981 January	78.5	100.5
February	76.7	100.5
March	72.8	97.9
April	72.9	99.9
May	74.1	102.5
June	74.2	104.7
July	69.6	98.4
August	65.2	93.8 <u>3/</u>
September	64.8	94.1 <u>3/</u>
October	63.2	94.6 <u>3/</u>
November	61.5	93.2 <u>3/</u>
December	58.4	89.2 <u>3/</u>

Sources: IMF, International Financial Statistics; and staff estimates.

1/ Based on payments weighted currency basket used by the Yugoslav authorities to monitor exchange rate developments; a decline in the index denotes a depreciation.

2/ Nominal effective exchange rate adjusted by changes in Yugoslav producer prices relative to a weighted average of wholesale prices of major convertible currency trading partners. Yugoslav producer prices are a weighted average of industrial producer prices (75 per cent) and agricultural producer prices (25 per cent).

3/ Yugoslav agricultural producer prices are estimated.

Table 46. Yugoslavia: External Reserves

(In millions of U.S. dollars; end of period)

	National Bank of Yugoslavia Official Reserves					Foreign Assets of Deposit Banks	
	Reserve position in the Fund	SDRs	Gold	Foreign exchange	Total	Total	Total
1975	--	34	62	777	873	350	1,223
1976	--	10	62	1,980	2,052	658	2,710
1977	--	13	64	2,031	2,108	666	2,774
1978							
1st qtr.	--	12	66	2,184	2,263	714	2,978
2nd qtr.	77	12	66	2,000	2,155	820	2,976
3rd qtr.	79	24	66	2,283	2,453	869	3 322
4th qtr.	81	20	69	2,288	2,457	783	3,245
1979							
1st qtr.	78	52	71	1,845	2,046	727	2,773
2nd qtr.	--	76	71	1,711	1,858	664	2 522
3rd qtr.	--	72	71	1,654	1,797	942	2,739
4th qtr.	--	54	73	1,203	1,330	638	1,968
1980							
1st qtr.	--	74	75	762	911	424	1,335
2nd qtr.	--	100	78	782	960	843	1,803
3rd qtr.	--	79	78	802	959	1,273	2,232
4th qtr.	--	13	78	1,371	1,462	1,102	2,567
1981							
1st qtr.	--	22	78	1,408	1,508	1 130	2,638
2nd qtr.	--	21	78	1,415	1,514	987	2,501
3rd qtr.	--	33	78	1,435	1,546	1,044	2,590
November	--	85	78	1,640	1,803	...	...

Sources: IMF, International Financial Statistics; and the National Bank of Yugoslavia.

Institutional Aspects of the Decentralized
Exchange and Trade System

In 1977-78 major legislation was adopted governing foreign transactions, which extended the principle of self-management embodied in the 1974 constitution into the fields of exchange and trade relations. The most important laws are: (1) the law on trade in goods and services with foreign countries; (2) the law on foreign exchange operations and foreign credit relations; and (3) the law on the conduct of business activities abroad. The basic approach is to develop overall policies starting with the plans of organizations of associated labor (OALs) and working up, through a system of agreements based on consultations and negotiations, to develop economic plans and procedures for the economy as a whole.

1. Organizational set-up

OAL is a generic term for the economic or noneconomic organization which carries out activities with social means of production and resources, and which is organized on a self-management basis. OALs include: basic organizations of associated labor (BOALS), work organizations, and composite organizations of associated labor. A BOAL is formed for each unit of a work organization which makes up a working whole and in which the results of joint labor can be expressed in terms of value on the market or within the work organization concerned. Harmonization and control of the activities of OALs is achieved through various bodies which serve as fora for negotiation and coordination of self-management agreements. These bodies include communities of interest, economic chambers, and other trade groups. All nonstate entities which realize and/or make use of foreign exchange, including BOALS and OALs, are participants in communities of interest for foreign economic relations at the republican and provincial level. At the Federal level, there exists the Yugoslav Community of Interest for Foreign Economic Relations and the Yugoslav Economic Chamber, which comprise representatives from the respective republican and provincial bodies. A representative of the Federal Executive Council takes part in the work of the Yugoslav Community. Within this complex of entities and institutions, self-management agreements provide the most basic mechanism of decision. Self-management agreements are legally binding contractual-type agreements entered into by workers in work organizations and communities of interest, and between different entities, in order to regulate and adjust their interests. Social compacts are agreements of broader social significance and embrace participation by political bodies as well as by OALs.

2. Policy formulation

Every year the Federal Assembly approves the Joint Foreign Exchange Policy (JFEP), at the same time as the Joint Economic Policy for the year is formulated and approved. The JFEP is a comprehensive plan which includes policies on exports; imports; protection of domestic production;

the exchange rate; foreign exchange reserves; foreign credit relations; coordination of mutual relations between the republic and provincial communities of interest for foreign economic relations; and balance of payments restrictions.

The starting point in the process of developing the JFEP, is the principle that BOALs are the basic holders of rights and obligations in the foreign exchange system and the basis for the formulation of external policies is laid through self-management agreements between OALs. A prominent role is assigned to the self-management communities of interest for foreign economic relations established within each republic and autonomous province and, at the federal level, to the Yugoslav Community of Interest for Foreign Economic Relations. In the self-managing communities of interest within the republics and autonomous provinces, balance of payments projections are prepared for the individual republics and autonomous provinces. Through a process of negotiation and adjustment, these projections are consolidated into the overall balance of payments for Yugoslavia, and social compacts between the republics and autonomous provinces establish the guidelines which will ensure implementation of the agreed economic policies. The republics and autonomous provinces are responsible for the realization of the JFEP, although the Federal Executive Council may intervene in consultation with the Yugoslav Community for Foreign Economic Relations in order to attain the targets set out in the JFEP. The self-managing communities of interest in the various republics and autonomous provinces play a crucial role in actual implementation of the policies both through their role as the organization within which self-management agreements between participants in foreign economic relations are concluded, but also as monitors of the performance during the year.

3. Trade transactions

The Law on Trade in Goods and Services with Foreign Countries establishes the conditions under which OALs engage in foreign trade. To be eligible to participate in foreign trade, an OAL must be registered and must conclude self-management agreements with OALs engaged in the production of goods for export or other OALs on whose behalf it trades on a stable basis and on a large scale. Coordinating Committees at the republican and provincial level as well as under the Federal Executive Council (FEC) establish whether OALs meet the requirements pertaining to the conduct of foreign trade. The FEC, with the concurrence of the competent republican and provincial authorities, regulates foreign trade transactions and prescribes the standards and other conditions for establishing quotas and licenses for imports and their distribution among OALs. In principle, quotas for most imports eventually are to be established by self-management agreements between OALs producing, consuming, and importing goods. The self-management agreements must take account of the established foreign economic policy and be based on the material balances of the OALs, reflecting the planned production, consumption, etc. The overall demand for imports has to be reconciled with the projections of the Federal Bureau of Social Planning.

Although one of the basic aims of the new laws is to make OALs more export oriented, the system as stated does not involve any obligation for direct linkage between particular export and import transactions. Under the system foreign trade organizations cannot engage in foreign trade except on the basis of self-management agreements with producers. Thus, trade organizations are not able, in principle, to perform a combination of exports and imports solely for their own purposes. Moreover, the rights of exporters and importers are laid down in self-management agreements negotiated within communities of interest where agreements must be reached, reconciling the different interests of exporters and importers, within the limits provided by the agreed balance of payments plans. Where large producers are able to eliminate the need for the services of foreign trade organizations it would be possible for the producers on their own initiative to negotiate a link between exports and imports with foreign clients. Similarly, foreign trade organizations could find it in their interest, both financially and in terms of fulfilling their commitments to achieve export targets, to negotiate export-import deals. However, even in cases where long-term cooperation agreements with foreigners are concluded, the authorities do not view with favor rigid direct linkage of exports and imports that could freeze relations and involve harmful effects insofar as such linkages do not take account of changing economic conditions. In practice, imports have been linked to the export performance of the self-management communities of interest.

4. Acquisition and disposition of foreign exchange

The Law on Foreign Exchange Operation and Foreign Credit Relations specifies provisions for the realization, acquisition, and disposition of foreign exchange. The basic principle of the foreign exchange system is that workers in BOALs are the principal holders of rights and obligations in foreign exchange transactions. Where foreign exchange is realized through independent performance by an OAL, the foreign exchange belongs to that organization. More often, however, foreign exchange will be realized by OALs that have pooled their labor and resources, in which case, the exchange realized belongs jointly to the organizations that have entered into the co-production, financial, or other arrangements for economic cooperation. The most common situation is the one where foreign exchange is realized by an OAL which has exported goods or services in the production of which other OALs have taken part through various forms of long-term cooperation. In such cases, self-management agreements must be concluded between the OALs involved which will provide for sharing the realized foreign exchange on the basis of the contribution made by the OALs involved. In addition, any enterprise making a significant contribution to the production of an export commodity has a right to ask the producer for the conclusion of a self-management agreement providing for a share in the actual inflow of foreign exchange. In principle, the contribution made to the realization of foreign exchange by the various OALs would be based on the value added by each OAL in the production of the goods or services exported. In practice, there might be problems, e.g., where a large number of OALs had been involved in the production, some of which have contributed only to a minor extent. In

such cases, self-management agreements might be concluded between the exporter and the major contributors only, while provision for obtaining needed foreign exchange by other OALs would be made under a self-management agreement concluded within the framework of the republican and provincial communities for foreign economic relations in conformity with the planned balance of payments policy. OALs may keep the foreign exchange they realize in a foreign exchange account, or sell it to an authorized bank, or use it for their own payments abroad in accordance with existing regulations, or may pool it with other OALs on the basis of self-management agreements. The Yugoslav Community of Interest for Foreign Economic Relations and communities of interest at the level of republics and autonomous provinces establish criteria which form the basis for acquiring the right to purchase foreign exchange on the foreign exchange market for OALs which do not realize foreign exchange earnings or not in sufficient amounts to cover payments for needed imports.

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