

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

SM/82/31
Correction 1

CONTAINS CONFIDENTIAL
INFORMATION

February 24, 1982

To: Members of the Executive Board
From: The Secretary
Subject: Yugoslavia - Recent Economic Developments

The following corrections have been made in SM/82/31 (2/11/82):

Page 3, 1st incomplete para., penultimate line: for "the roadway system"
read "the railway system"

Page 7, under 4., line 1: delete "employ"

Page 18, para. 3, penultimate line: for "19 per cent" read "39 per cent"

Page 20a, Chart - Developments in Consumer Prices: In the body of the chart,
for "Developed countries"
read "Developing countries"

Page 29, para. 3, line 7: for "lending to nohey grew by only 5 per cent"
read "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"

Page 35, Table 13: figures in last column revised

Page 37, Table 15: revised

Page 41, Table 19: revised

Page 44, Table 22, column 9, line 9: for "1.4" read "7.4"

Page 47, Table 25: figures in last column revised

Page 50, Table 28, column 6, line 1: for "-26.9" read "-25.9"

Page 51, Table 29, column 6, line 4: for "77.4" read "27.4"

- over -

Page 56, Table 31, columns 5 and 6, penultimate line: for "..."
read "--"

Page 57, Table 32: revised

Corrected pages are attached.

Att: (14)

Other Distribution:
Department Heads

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.

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 under-employment 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.

Table 8. Yugoslavia: Employment by Sector

	1980		1977	1978	1979	1980	1981	
	In thousands	In per cent of total					Jan.-Aug.	
			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).

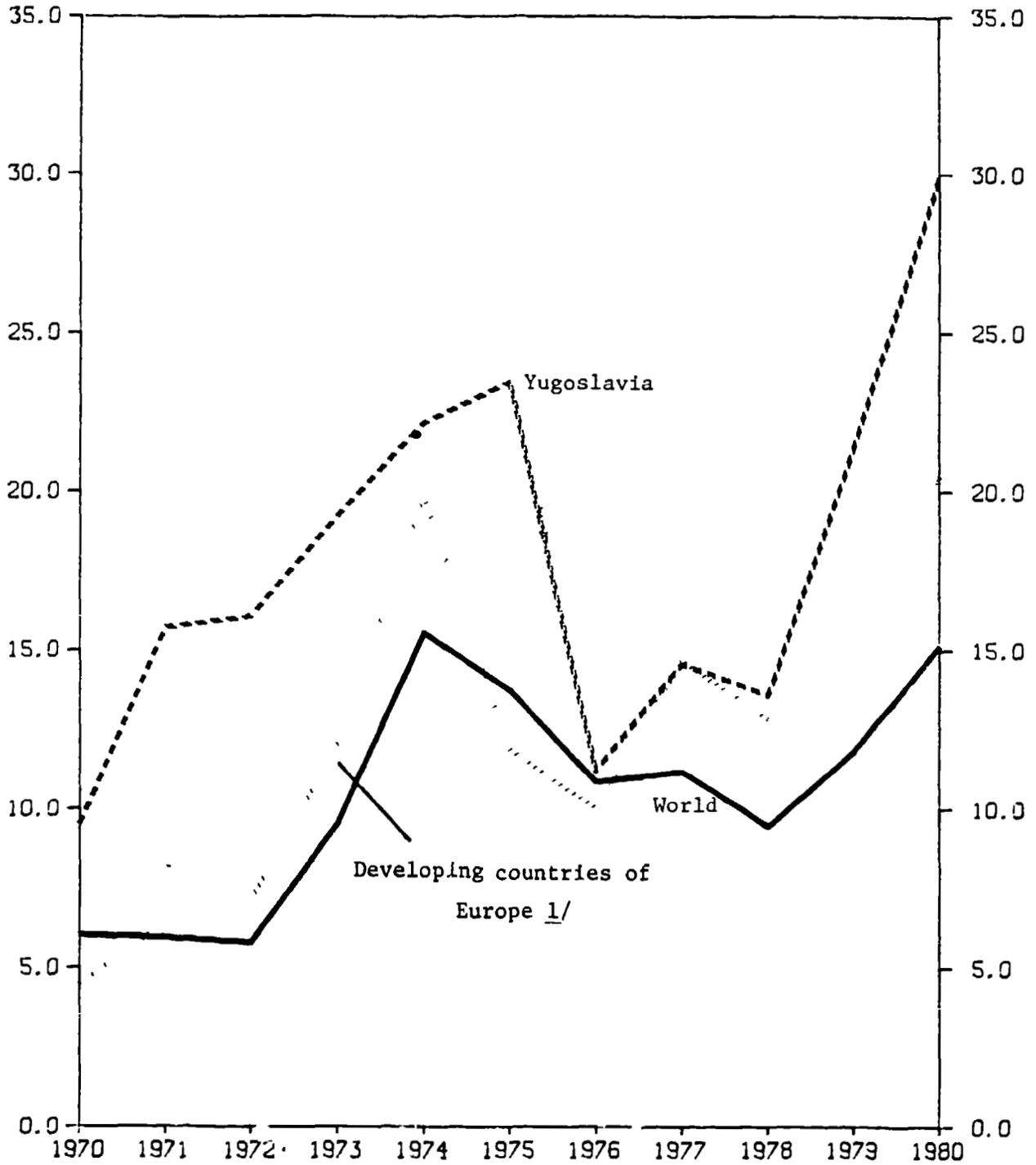
It is difficult to disentangle the basic causes of these inflationary pressures in the 1970s since inflation occurred in an environment characterized by rapid increases in bank credit and the money supply, by the persistence of excess domestic demand, and by strong rises in unit labor costs. Also, in 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

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



Source: IMF, International Financial Statistics.

1/ Excludes Turkey.

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

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

(In per cent of GSP)

	1976	1977	1978	1979	1980
Gross saving ^{1/}					
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 ^{1/2/}					
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 ^{3/}					
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 ^{3/}					
	-0.5	-1.0	1.6	2.4	1.8
Financial surplus ^{3/}					
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 SFKY 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)	1976	1977	1978	1979
	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 Statistički 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 <hr/> In billions of dinars
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	-23.1	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 Statisticki 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 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.	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			
Uses													
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			
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.

SM/82/31

Corrected: 2/22/82

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.												
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	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	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	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	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	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	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	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	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	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	15.6	18.5	19.0	20.2
Total	156.0	162.3	171.3	185.5	204.3	216.7	217.4	236.2	265.5	278.1	310.7	325.7	336.6	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	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	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/ In billions of dinars			Money Multipliers			
	Money, Supply	NBY	IMF	IFS	NBY	IMF	IFS
		definition	definition	definition	definition	definition	definition
1971	40.7	43.0	50.7	36.9	0.95	0.80	1.10
1972	55.2	62.2	67.5	54.8	0.89	0.82	1.01
1973	77.5	79.8	84.2	69.5	0.97	0.92	1.12
1974	97.2	84.6	89.4	74.0	1.15	1.09	1.31
1975	130.7	103.7	107.4	89.4	1.26	1.22	1.46
1976	206.5	144.2	147.6	131.3	1.43	1.40	1.57
1977	251.1	162.0	167.6	151.8	1.55	1.50	1.65
1978	315.3	187.9	207.3	282.0	1.68	1.52	1.12
1979	375.2	187.0	217.2	334.1	2.01	1.73	1.12
1980	461.6	182.9	287.6	446.2	2.52	1.61	1.03
1981 October	557.1	...	335.9	1.66	...

Sources: National Bank of Yugoslavia, Quarterly Bulletin; International Monetary Fund, IFS; Table 19; 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 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.
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	3.0							
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 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

	<u>Gross Social Product</u>	<u>Money Supply 1/</u>	<u>Money and Quasi-money 1/</u>	<u>Velocity of Circulation 1/</u>	
	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	224.7	4.47	1.53
1974	407.2	97.2	273.7	4.56	1.63
1975	503.0	130.7	347.1	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, 1978-81

(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	4th qtr
Households	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	121 3	136 6	145 1	147 3
Money supply	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	119 1	124 9	138.4	142 3
Short-term foreign currency deposits	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	135 3	138 8	140 7	141 8
Other liquid assets 1/	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	125 3	127 8	133 9	136.8
Long-term foreign currency deposits	43 0	46 0	47 9	49 1	54 0	54 4	56 6	57 6	63 7	68 6	71 6	77 1	79 5	68 6	71 6	77 1	79 5
Other quasi-money 2/	326 6	340 6	360 3	377 6	418 0	420 6	491 0	508 1	548 3	569.6	601.7	635 2	641 7	569.6	601.7	635 2	641 7
Enterprise sector 3/	138 6	136 3	126 6	137 4	156 3	151 3	155.6	174.8	197.1	190 9	197 5	211 9	214 8	190 9	197 5	211 9	214 8
Money supply	47 1	44.9	49 4	48 8	50 9	47 7	71 1	80 5	84 8	93 8	102.9	116 3	121 5	93 8	102.9	116 3	121 5
Short-term foreign currency deposits	29 8	32.1	30 0	32 2	35 9	39 8	43 5	49.4	58 2	61 9	66.9	85 1	8 5	61 9	66.9	85 1	8 5
Other liquid assets 1/	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	0 6	0 5	0 5	0 5
Long-term foreign currency deposits	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	124.2	131.7	139.7	137 9
Other quasi-money 2/	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	471.4	499 5	553 5	558 2
Total	95 8	106 5	106 7	117 5	120 1	130.6	128 8	139 6	138.5	165.0	171.9	188.6	194 0	165.0	171.9	188.6	194 0
Other sectors 4/	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	5.8	6 4	21 1	14.7
Money supply	17 9	20 5	19.3	20 7	27 7	24.3	20.7	22 1	25 6	23 5	23.8	12 8	13 9	23 5	23.8	12 8	13 9
Short-term foreign currency deposits	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	68 9	72 6	75.4	81.5
Other liquid assets 1/	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	263 8	275.4	298.7	310 2
Long-term foreign currency deposits	315 3	323 2	321 0	346 5	375 2	386.2	399.3	430.8	461.6	477.2	506 0	545 6	557 1	477.2	506 0	545 6	557 1
Other quasi-money 2/	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	218 7	234.2	275.8	279.5
All sectors	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	220 7	229.5	238.6	242 2
Money supply	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	126 5	129.0	135.2	138 4
Short-term foreign currency deposits	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	261 7	277 9	292 2	298 9
Other liquid assets 1/	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	1,304 8	1,376 6	1,487.4	1,516 1
Long-term foreign currency deposits																	
Other quasi-money 2/																	
Total																	

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: ^{1/}										
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 ^{1/}	375.2	11.0	13.1	31.5	30.8	15.6	28.8	39.6	27.8	24.4
Quasi-money ^{1/}	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.

SII/82/31

Corrected: 2/22/82

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.	4th qtr.
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

Table 10 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
					Original budget <u>1/</u>	Latest estimates <u>2/</u>	Budget <u>3/</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>2,350</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>8,970</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.