

INTERNATIONAL MONETARY FUND

December 23, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Survey of the Economy of Yugoslavia

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INTERNATIONAL MONETARY FUND

Research Department

Survey of the Economy of Yugoslavia

Prepared by E. G. Spitzer and M. R. Wyczalkowski

Approved by Ernest Sturge

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1. Territory and Population

The area of Yugoslavia is 255,000 square kilometers, including about 6,900 sq. km. acquired from Italy under the Peace Treaty of 1947. It is composed of at least three entirely different geographical regions. The northeastern part is flat country with rather continental climate; the coastal belt has a mediterranean climate. The country lying between is mountainous. There are frequent rains on its southwestern slopes; the interior, which is covered mostly with forests and bushes, is drier.

The national composition of the population is as diversified as the geographical regions of the country. In 1931, the total population of 13.9 million comprised about 5.8 million Serbs, 3.8 million Croats, 1.2 million Slovenes, 0.8 million Macedonians, 250 thousand Rumanians, and 250 thousand Slavs other than Serbs, Croats or Slovenes. There was also the Hungarian speaking group, and the Albanians. The largest minority group were Germans - about half a million. Germans are now being expatriated from Yugoslavia.

There are great differences in religion and culture, owing to the fact that the people of Yugoslavia lived for centuries within a number of separate political units. The Serbs are Greek-Orthodox and use the Cyrillic alphabet. The Croats and Slovenes are Roman Catholic and use the Latin alphabet. In Bosnia and Hercegovina, there are about 800 thousand Moslems.

The geographic, national, and religious differences were a source of political tension in Yugoslavia which finally led to the present federal organization of the State.

The exact number of the present population of Yugoslavia is not known. According to Yugoslav estimates, at the end of 1940 the population was 15.9 million. To arrive at a figure for the present population (excluding that of the newly acquired territory), the 1.6 million people lost during the war, the minorities expelled from the country, and other people who were taken by Germans as slave labor and did not return to Yugoslavia should be subtracted, and the natural increment should be added. On the assumption that war losses were distributed

uniformly over the period of four years, that the rate of natural increase of the population was 1 per cent (compared with 1.48 per cent before the war), that about 0.2 million Germans were repatriated to Austria and Germany, and that another group of people taken to Germany during the war have not returned, the population at the end of 1946 seems to be about 15 million. This figure does not include the population of the territory acquired from Italy.

The present average density of population is about 60.1 inhabitants per square kilometer, compared with the prewar figure of 61.3 (newly acquired territory and its population excluded from this calculation). The population is distributed very unevenly. Density is high in Voivodina, a rich agricultural province in the northeastern part of the country, while the lowest density is in the mountainous parts.

In 1931, 13.2 per cent of the population lived in towns and 86.8 in villages; 78.7 per cent of the gainfully occupied people were engaged in agriculture, forestry and fishing, 11.1 per cent in industry, mining and handicraft, 4.1 per cent in trade and transport, and the remaining 6.1 per cent in other professions. The occupational composition of the population was changing very slowly in the interwar period. A shift from agriculture to industry and trade was encouraged even before the war, but with meager results. The present Government is taking more vigorous action in this respect.

As in many other Eastern European and Balkan countries, there was an agricultural over-population in Yugoslavia, but under the five year plan this excess agricultural population should be absorbed by the growing industry of the country.

2. Principal Features of the Economy

Yugoslavia is predominantly an agricultural country. Industry is not developed in spite of the fact that, apart from Rumania's oil resources, Yugoslavia has the richest mineral supplies of all the Balkan countries. Industrial development is handicapped by lack of capital and by the peculiar geographical structure which separates regions with divergent economic characteristics and makes progress directly dependent on improvement of the transportation system.

The northeastern region has large agricultural surpluses, while the coastal Adriatic belt and mountainous center of the country are definitely deficient in food. Industry is concentrated mainly in Slovenia, the northwestern part of the country.

The standard of living is very low. The prewar national income was about \$1.2 million or approximately \$77.5 per person. Population engaged in agriculture, about 79 per cent of the total, contributed only 47 per cent of the national income, while the remaining 21 per cent of the population contributed 53 per cent. National income for 1945 was estimated at 50 per cent of the prewar level. In 1946 it may have reached about 75 per cent. (Including UNRRA help).

War Destruction

The German extermination policy, continuous fighting, and starvation exacted a heavy toll in human lives, estimated at 1.6 million people. Physical destruction was especially heavy in the communication systems: 6,140 km of railways or 59.5 per cent of the total length of railways in Yugoslavia were damaged; about 50 per cent of locomotives and 48 per cent of railway cars were lost. The extremely heavy destruction of bridges completely disrupted the transportation system.

Out of 4,257 industrial plants existing before the war, 973 (23 per cent of the total number and 26 per cent of the total value) were destroyed or seriously damaged. Mines, the lumber, chemical, textile, and metal industries suffered losses of more than 50 per cent. The country lost about 20.7 per cent of its buildings - leaving over 3 million people homeless - 38 per cent of its vineyards, and 55-63 per cent of its livestock. The destruction of forests was over 10 per cent.

Economic Organization

The economic organization of the country is in a state of transition and the development indicates a trend toward a rather strictly planned economy.

Before the war state ownership in Yugoslavia included, apart from monopolies (salt, matches, and tobacco manufacture), railways, a part of the forests, some of the sugar factories, several banks, and almost all the plants of the iron and steel industry. Immediately after the war, the scope of state ownership had substantially increased because of confiscation of ex-German enterprises and the property of collaborators. In addition, some heavy industries and almost the entire transport system have been nationalized. The state sector comprises also an unknown part of wholesale trade, an insignificant portion of retail trade (in larger towns only), and a few large farms.

Cooperative ownership is predominant in wholesale trade and has a large share in retail trade and in handicraft. Private ownership predominates in agriculture, and has a share in the retail trade, handicraft, and in industry. Division of the country's industry (including handicraft) among different kinds of ownership was at the end of November, 1946, as follows (percentages calculated on the basis of the value of production):

State enterprises	60 per cent
Private enterprises (including cooperative handicraft)	10 per cent
"Sequestered" enterprises	30 per cent

Sequestered enterprises were those the ownership of which was not yet determined, and mixed enterprises owned jointly by the State and individuals. Legally, they are regarded as private enterprises.

The above percentages have been considerably changed and probably will change further, in favor of state ownership, in the course of execution of the Nationalization Law of December 6, 1946. Under this law, nationalization will include practically all private industrial and all private wholesale trade enterprises.

State industry is administered by the Central Ministry of Industry through twelve Central Administrative Agencies, or by the Ministries of Industry of the Autonomous Republics through their offices responsible for different branches of industry. The Central Ministry of Industry has established Central Administrative Agencies directing the nationalized enterprises of each of the following industries: coal, oil, metal, chemical, glass, food processing, tobacco, electrochemical, building, textile, leather, and rubber.

The managers of the state plants are appointed by the state authorities (probably Central Administrative Agencies) upon the advice of the labor unions. The functions of the labor unions are not confined to welfare, educational, and social activities. They also have an influence upon production policies, wages, appointments and dismissals of managers and other administrative officers, and the hiring of labor.

The principles according to which the Yugoslav economy will function are not very well known, and probably are still in a state of transition. At present the profits and losses of the industries are pooled and individual enterprises can be run regardless of their individual profitability. This means that the principle of average and not marginal costs has been accepted as a basis of pricing. Prices are now strictly controlled and often set arbitrarily by the State authorities, but it is not known what kind of price mechanism will be accepted or allowed in the future.

Central planning is not limited to the state sector of the economy. Some cooperatives, and private industrial enterprises, the production of which is regarded as essential, are included in general production plans, and their profits are restricted.

Agriculture

Only about one-third of the total area of Yugoslavia is classified as arable land. The remaining part is either covered by forests (some 28 per cent of the total area) or is mountainous and unsuitable for cultivation.

Yugoslavia is a land of small peasant farm holdings. There were about two million farms in the country before the war of which one-third was less than two hectares in size, one-third between two and five hectares, and only one-third was larger. Farms over 100 hectares (247 acres) were only some 0.1 per cent of the total number, and covered only 1.4 per cent of the cultivated area. The larger farms were situated mostly in the fertile region of Voivodina, in Croatia and in Slovenia. It was from this region that the agricultural commodities of Yugoslavia were exported. The small farmers in the rest of the country produced little above what they themselves consumed. In fact, they sold only as much of their produce as was necessary to cover their most essential needs not produced on their farms, such as shoes, kerosene, etc.

In the interwar period high birth rates, together with the primitive agricultural methods of production and the lack of opportunity to emigrate, produced a steadily increasing over-population in the rural regions. It has been estimated that in the 1930's in Yugoslavia on one acre of agricultural land, four times as many people as in Denmark produced only one-third of the Danish output.

The acute problem of rural over-population cannot be solved through land reform, because, as stated above, there are very few large farms which could be

divided into smaller units. The government is, therefore, sponsoring intensification of industrialization and, at the same time, it is endeavoring to improve production methods so as to increase the cash income of the rural population. In this respect, even before the war considerable progress had been achieved, particularly in the production of fruits and poultry.

Industry

Even though natural conditions for development are favorable, Yugoslav industry is still only in its infancy. In spite of the fact that Yugoslavia is the richest and most important source of minerals in the Balkans, only 27,000 people were employed in mining before the war, and only 2.5 per cent of the national income was derived from this source.

Among the minerals mined in Yugoslavia the most important are copper (40,000 tons yearly), lead (71,000 tons yearly), zinc, bauxite, iron ore, chrome, antimony, gold, and silver (mostly as by-products of copper and lead).

More intensive utilization of these resources was hindered by lack of capital. During the war, the meagre capital equipment of the mines was destroyed by the resisting workers and later on by the retreating German army.

Industrial production was considerably expanded (relatively speaking) during the interwar period, mainly with the help of foreign capital. This is particularly true of textile, iron and steel (the great steel works of Zenica), and some chemical industries; and the lumber industry was considerably modernized. Despite these efforts there were only 700,000 people employed in industry and handicraft before the war.

During the war nearly all existing factories and saw mills were damaged, and they now need considerable repair before resuming production at full capacity. It is the intention of the present government to repair, within its five-year plan of industrial expansion, existing textile mills, copper, gold, lead, bauxite, and iron mines, as well as to build refineries, so as to shift its export from ores to refined metals.

A large number of saw mills are already in full production and copper mines too are near prewar capacity. Judging from the orders placed by the Yugoslav Government in Czechoslovakia, Sweden, and Hungary for capital goods, the capacity for industrial production of the country will, within the next five years, be expanded considerably.

Consumption and Distribution

Even before the war consumption, particularly of industrial goods, was very low. Due to war destruction and complete disorganization of the distribution system, as well as great shortages of consumption goods in general, consumption dropped far below subsistence level. Between July and December, 1945, for instance, the goal for the caloric value of the daily food consumption per person was only 2,295 calories,^{1/} compared with 2,651 before the war. The contribution of UNRRA amounted to 565 calories or 24.6 per cent of the planned consumption. The situation was aggravated by the fact that even the meagre food resources of the country could not be distributed equitably. The mountainous regions were completely cut off from the plains, where a limited surplus of

^{1/} The actual consumption was probably below this figure.

food products was available. Mass starvation in the winter of 1945-46 was avoided only by large UNRRA imports, and by the great help which this organization extended in supplying trucks and bridge-building equipment so as to rehabilitate the disrupted transportation system, and to facilitate the distribution of food supplies.

Distribution was in 1945 also hampered by the breakdown of the Government's food collection system. The Government tried by a decree to compel every farmer to sell at a fixed price a predetermined quantity of his products to government agencies. The results of this regulation were disappointingly small, because the farmers refused to cooperate, and the Government was unable to enforce its measures. In 1946 the regulations were changed, and many incentives were given to the farmer to offer the maximum amount of his products for sale to the Government, particularly since he was obliged to sell to the Government at a fixed price only a certain percentage of his products; the rest he could sell at the free market prices, which were much higher. Moreover, small land holders (below 3 hectares) in the mountainous regions were freed from any obligation to deliver grain to the Government.

The results were accordingly much better, and the incentive of being able to sell on the free market, which was given to the farmers, resulted in an expansion of agricultural production.

A ration system for food was adopted in 1945, but ration cards have been issued only to the city population, and to villages in the mountainous food deficit areas. The ration allotments vary according to the occupation of the population. The general target to be achieved by the rationing system is a consumption of 1,470 calories for normal consumers and 3,256 calories per person for workers employed in heavy work. Important industrial consumers' goods, such as shoes and textiles, are also rationed.

3. Production, Wages and Prices

Agricultural Production

Because of war destruction the crops of 1945 were very low. The target for the winter of 1945 and spring of 1946 sowing plan was the prewar area of cultivated land. With draft power more than 50 per cent below prewar, and an acute shortage of seeds, this represented a tremendous task. In spite of these difficulties about 90 per cent of the prewar area was sown. Tractors and seeds in large quantities were provided for this purpose by UNRRA.

The spring drought, however, reduced the harvests of 1946 to about 43 per cent of the prewar level for maize, and 75 per cent for other grains, as indicated in the following table: (in thousands of metric tons):

	<u>Average 1935-1938</u>		<u>1945</u>		<u>1946</u>	
	<u>Metric Tons</u>	<u>Percentage</u>	<u>Metric Tons</u>	<u>Percentage</u>	<u>Metric Tons</u>	<u>Percentage</u>
Maize	4,582	100	2,525	55.1	1,975	43.1
Wheat	2,573	100	870	33.8	1,960	76.3
Barley	401	100	220	55.0	191	47.5
Oats	308	100	335	108.1	154	50.0
Rye	209	100	75	35.1	169	80.9
	8,073	100	4,045	50.4	4,449	55.1

	<u>Average 1933-1937</u>		<u>1946</u>	
	<u>Metric Tons</u>	<u>Percentage</u>	<u>Metric Tons</u>	<u>Percentage</u>
Potatoes	1,583	100	400	25.3
Sugar beets	499	100	270	54.0
Pulses	148	100	23	15.5
Oil seeds	31	100	36	116.1
Olive oil	4.1	100	1.5	36.6

It is reported that the 1947 maize harvest has been fairly good, but actual figures are not known.

The figures of livestock numbers for 1945 and 1946, compared with prewar, are shown below (in thousands):

	<u>Average 1935-1938</u>		<u>1945</u>		<u>1946</u>	
	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>	<u>Number</u>	<u>Percentage</u>
Horses	1,230	100	497	40.4	609	49.5
Cattle	4,160	100	1,912	46.0	2,451	58.9
Sheep and goats	11,605	100	5,813	50.1	6,355	54.8
Pigs	3,180	100	1,497	47.1	2,733	85.9
Poultry	21,060	100	10,629	50.9	16,000	76.0

Industrial Production

Postwar reconstruction is reported to have made very satisfactory progress and, accordingly, production has increased.

Production of coal has almost reached the prewar level, and production of fertilizers has surpassed the prewar output. Development of the textile and chemical industries is hampered by lack of raw materials. Production of electric energy has made very good progress, and construction of two big plants for the production of 300,000 tons of aluminum annually has been completed.

The decrease in controlled prices of industrial consumer goods (by 30 per cent for some goods) might also be considered as an indication of improved production. Although prices in Yugoslavia are under strict government control, their determination cannot be quite arbitrary, or independent of supply and demand conditions. If the decrease in prices of industrial consumer goods carried out in 1946 were unrealistic and contrary to supply and demand conditions, a vigorous black market would have developed, and black market prices would have increased. It is reported, however, that both the scope of the black market and the black market prices have been decreasing. Since the demand for industrial goods has been increasing (in view of the growing production of agricultural goods), a substantial reduction of prices of industrial goods may be considered as an indication that the rate of increase of industrial production was higher than that of agricultural production.

Prices and Wages

After the currency reform, to be discussed later, the Government proceeded to create conditions for stability in the price and wage structure by fixing prices and wages, (Decree of the Federal Council of June 8, 1945). Prices were

fixed at the 1939 level plus about 50 per cent for agricultural and 30 per cent for industrial products. According to the official statement, the purpose of fixing different price levels was to correct the discrepancy between prices of agricultural and industrial products which had existed before the war. A distinction was also made between luxury goods, sold on the free market, and wage goods, subject to regulation and control. In the second category were most products of agriculture and forestry, the mines, industries, and utilities.

In 1945 the Government was not entirely successful in maintaining prices at the level originally fixed: The official price of bread was raised from 3 dinars in May to 5 dinars in August, and 7 dinars in December, and in January, 1946, official food prices were further increased as an incentive to agricultural producers.

As a result of UNRRA deliveries, a cautious monetary policy, and the Government incentive program which aimed at increased production, prices of most necessary consumer goods were reduced during the summer of 1946 by 5 to 10 per cent.

Changes in controlled prices from January, 1946, to January, 1947, are shown below.

Index Numbers of Prices
(1936 = 100)

	<u>Wholesale Prices</u>			<u>Retail Prices</u>	<u>Cost of Living</u>
	<u>General Index</u>	<u>Agricultural Goods</u>	<u>Industrial Goods</u>		
1946					
January	285.9	315.0	252.4	.	281.1
February	286.2	315.9	252.0	.	284.9
March	283.7	313.5	249.3	.	297.4
April	283.3	313.2	249.0	.	264.3
May	281.0	309.3	248.4	.	263.1
June	274.9	298.9	247.2	.	233.4
July	274.9	298.9	247.2	287.4	216.2
August	271.9	297.2	242.8	283.2	205.9
September	273.1	300.3	241.8	281.1	200.2
October	272.8	300.5	240.8	284.9	202.5
November	274.6	303.5	241.4	287.8	218.5
December	278.1	310.0	241.4	291.5	221.9
1947					
January	278.4	310.4	241.5	284.5	224.2

Black market prices were many times higher than official price quotations, but the black market never developed to any great extent, and it is reported that its significance has recently been further reduced by closer Government control of the economy.

The cost of living index (applicable mainly to city workers) was in September, 1946, 30 per cent and in January, 1947, 22 per cent below the level of January, 1945. The decline in the retail (and wholesale) price indices was more moderate, as in selecting the prices included in the cost of living index,

account was taken of the fact that an increasing proportion of the food requirements of workers was satisfied by cheap meals in factory canteens, and probably also of the effects of low-priced UNRRA supplies.

The fixing of wages and salaries aims at a concentration as far as possible of the loss of real income upon the higher income groups.

Minimum wages were raised to three times the prewar level, from an average of 600 dinars per month to 1,800 dinars. Wages in the middle brackets were raised to only about twice the prewar level, and salaries of the highest paid groups were reduced by approximately 20 per cent.

The purchasing power of the wages of workers was also increased by bonuses for skilled work, over-time payments, family allowances, and by a system of canteens in factories which provided meals at lower than official prices. Changes in wages in 1945, 1946, and January, 1947, were as follows:

	Index Numbers of Money Wages (1936 = 100)	Index Numbers of Real Wages (1936 = 100)
1945		
May - December	263.0	
1946		
January)		93.6
March)		88.5
June)	263.0	112.8
September)		131.4
December)		118.5
1947		
January	263.0	117.4

These wages applied only to industrial workers (about 300,000 before the war). Since the supply of wage goods (including UNRRA supplies) in 1946 was, at the most, 75 per cent of the prewar level, the real incomes of the agricultural population would be somewhat below 75 per cent of prewar standards.

4. Reconstruction Plan

Investments during 1945 were entirely for rehabilitation, whereas in 1946, they were for reconstruction and, in quite a few cases, for development (e.g., aluminum refining plants).

For the period January 1, 1947 - December 31, 1951, a five-year reconstruction and development plan was voted by the Yugoslav Parliament. The main aims of the plan are: (1) reorganization of the Yugoslav economy along the lines of modern production methods both in agriculture and industry, (2) development of the country's natural resources, and (3) an increase in the standard of living of the population. According to the plan, the national income in 1951 should be 93.2 per cent above the 1939 level.

The plan gives priority to industrial production, and especially to heavy industry. While the targets for industry indicate an increase of several hundred

per cent above the 1939 level, agricultural production has to increase by only 51 per cent by 1951. The planned rapid increase in industrial production may be justified by the fact that the present level of production is very low and that natural resources are now utilized to only a small extent. Despite these considerations the plan seems very ambitious, and the financial aspect of the plan confirms this impression.

The goals for the main branches of industry are presented below:

	<u>Production in 1939</u>	<u>Production in 1951</u>	
		<u>Quantity</u>	<u>Percentage of 1939</u>
Coal, million tons	6.1	16.5	170
Pig iron, thousands of tons	101.4	507.0	400
Oil, thousands of tons	1.0	450.0	450 times
Lead " " "	11.0	65.0	495
Zinc " " "	4.9	20.0	308
Cement " " "	663.0	2,200.0	238
Window glass, thousands of m.	1,227.0	4,600.0	274
Paper, tons	630.0	36,000.0	57 times
Cellulose, thousands of tons	35.6	87.0	142
Electric energy, million of K.W.H.	1,100.0	4,350.0	295
Textiles			
linen fabrics			951
cotton fabrics, millions of m.	116	280	141
Leather			200
Rubber tires, thousands of pieces	3.3(1946)	160.0	48 times
Sugar, thousands of tons	73	230	214
Vegetable oil, thousands of tons	25	75.0	304
Canned fruit " " "	5.6	87.0	1,570
Tobacco " " "	17	46.0	278

Besides the goals for industrial production, there are also plans for an ambitious housing program, development of the school system, and plans for the building of various cultural facilities.

The total amount of money to be spent on investments during the five years covered by the development plan is 278.3 billion dinars (\$5,556 million at the official exchange rate⁽¹⁾). The national income is supposed to increase from 132 billion dinars (calculated at 1946 prices) in 1939 to 255 billion dinars (\$5,100 million) in 1951. But the national income in 1946 estimated on the basis of production of last year, including UNRRA help, could have been only about 75 per cent of the 1939 level - or about 99 billion dinars. The goal for national income in 1951 would therefore represent a 157 per cent increase over the 1946 level. Under the assumption that the rate of increase of the national income will be uniform (about 20.5 per cent) over the five-year period, the total income for the whole period covered by the Development Plan would be about 910 billion dinars. Thus investments for the period of the plan represent 30.6 per cent of the total national income for the same period. This heavy drain on the national income may be reduced if the Yugoslav Government

(1) It should be noted, however, that the Yugoslav dinar seems to be substantially overvalued in terms of the present official exchange rate. The actual dollar value of investments and of the national income therefore would be lower than those obtained by the conversion of dinar values at the official exchange rate.

succeeds in obtaining large credits from abroad. But even if loans of \$500 million should be obtained, the planned investments would still require the spending of about 27.8 per cent of the national income produced at home -- which would be difficult for a nation having such a low standard of living as Yugoslavia.

It was, however, reported that in the first half of 1947, the goals of the plan for that period were achieved.

5. Money, Banking and Finance

Banking Organization

The Yugoslav banking system was reorganized after the war. A new state-owned banking system was organized under the leadership of the National Bank of Yugoslavia, and many private banking institutions never resumed their activity because the monetary reform deprived them of almost all resources.

The short-term credit business is practically entirely in the hands of the National Bank with its several branches. State enterprises are financed with short-term credit directly by the National Bank, which supervises all transactions of the enterprises so financed.

Long-term credit business lies within the scope of activity of specialized banks. The Postal Savings Bank is the principal institution for savings accounts of the public. The Industrial Bank extends medium- and long-term credits to industrial and mining establishments. The Cooperative Bank and Agricultural Bank serve the credit needs of cooperatives and of agriculture.

In addition, there are the Mortgage Bank and the Artisans' Bank. All these banks have their provincial branches, serving the needs of local industry, agriculture, etc. There are also a number of municipal savings banks and a few private banks, extending short- and long-term credits.

Monetary Reform

In November, 1944, when Belgrade was liberated, seven currencies were circulating in the country: dinars in Serbia, kunas in Croatia, reichsmark, lire, and pengos in the areas annexed by Germany, Italy, and Hungary, respectively, leks on the Albanian border, and Bulgarian levass in Macedonia.

The monetary reform of 1945 eliminated all those currencies by converting them into new dinars. The conversion rule was that an individual could get a maximum of 5,000 new dinars for 100,000 old dinars, or for 83,333 reichsmarks, 5,000 pengos, 50,000 levass, 200,000 kunas, 15,000 liras, or 10,000 leks. Excess holdings of old currency had to be declared and deposited with the banks in exchange for non-negotiable certificates.

In the conversion of bank deposits a similar procedure was followed; deposits effected after the date of the German invasion were converted at the above-mentioned rates, and withdrawals were limited to a maximum of 5,000 new dinars.

The holders of certificates and blocked bank deposits were allowed to dispose of amounts exceeding 5,000 new dinars after a tax - with a sliding scale

ranging from 12 to 70 per cent for individual bank deposits, and 6 to 20 per cent, or 8 to 50 per cent for business deposits, depending on the type of enterprise - was levied in order to reduce the supply of money in the country. By carrying out all these measures, the total note circulation was reduced to 6.2 billion dinars - approximately 63 per cent of the 1939 level, and only about 2 per cent of the circulation before the monetary reform.

Supply of Money After the Reform

As blocked bank deposits were to some extent released, in order to meet the financial requirements of expanding business activity, and probably also of the Government, the note circulation had, by the end of 1945, been greatly expanded beyond the low level immediately after the Monetary Reform.

The development of the supply of banknotes, coins and sight deposits of the National Bank during 1946 is shown below.

Banknotes in Circulation and Sight Deposits with the National Bank of Yugoslavia (in millions of dinars)

<u>End of:</u>	<u>Total</u>	<u>Banknotes and Coins</u>	<u>Sight Deposits</u>
1945	21,432	17,822	3,610
1946			
March	20,450	16,419	4,031
June	19,308	15,231	4,077
September	23,921	18,395	5,526
December	40,158	20,578	19,580

These figures give a rather exaggerated picture of the quantity of money, because foreign clearing deposits are included in the figures of sight deposits. The demand deposits with the commercial banks are not known.

The sharp increase of banknotes and sight deposits in circulation during the last quarter of 1946 may be explained by a reform of the banking system. During that quarter, the right of the Yugoslav state banks to grant short-term credits and receive sight deposits was transferred to the National Bank of Yugoslavia. This transfer, of course, did not effect an increase of the total supply of money.

The development of business activity as the reconstruction of the national economy proceeded makes it reasonable to suppose that sight deposits, which prior to this reform had been kept with the specialized banks, probably increased gradually after the general monetary reform was carried out. The total supply of money was, therefore, probably increasing gradually throughout the post-war period.

Changes in the money supply in 1947 are not known. Information is lacking especially on whether and to what extent the reconstruction and development plan has been financed by new issues of money. If investments are carried out according to the very ambitious plan, the circulation would have to increase at a considerable rate. On the other hand, it is known that the Government has pursued a very cautious monetary policy. Throughout 1946 prices were falling,

and some recent information indicates that in the first half of 1947 this trend was maintained.

Government Finance

The budgets for 1945, 1946 and 1947 are summarized below (in millions of dinars). The 1945 and 1946 figures are of ordinary budgets; for 1947 they also include extraordinary revenue and investment expenditure, and in other respects too, it is not possible, on the basis of information at present available, to establish comparability between the figures for successive years. Actual expenditure and revenue are not known, though it is reported that in 1946 actual expenditures amounted to less, and receipts to more than the estimated figures.

	<u>1945</u>		<u>1946</u>		<u>1947</u>	
	<u>Expendi- tures</u>	<u>Revenues</u>	<u>Expendi- tures</u>	<u>Revenues</u>	<u>Expendi- tures</u>	<u>Revenues</u>
Federal Government	.	.	20,602	17,308	59,560	60,686
Autonomous Governments	<u>.....</u>	<u>.....</u>	<u>13,359</u>	<u>10,149</u>	<u>26,294</u>	<u>25,168</u>
Total	15,044	10,660	33,961	27,457	85,854	85,854

The estimated deficit for 1945 was probably covered by new issues of money and by the proceeds from sales of UNRRA supplies. The smaller deficit for 1946 was covered at least in part by drawing upon the Reconstruction Fund.^{1/}

In 1946 the main Federal Government revenue items were state monopolies (5.7 billion dinars), state enterprises (9.2 billion dinars), and indirect taxation (2.3 billion dinars). No receipts from direct taxes were listed.

One-half of the total Federal Government expenditure was for national defense. The rest was spent for the operation of state monopolies, state enterprises and administration.

The 1947 budget covers items of an economic character (reconstruction and development) as well as administrative items, education and national defense. It may be presumed that some of these items were not included in the ordinary budgets of 1945 and 1946, though the sharp increase, in comparison with 1946, is also supposed to reflect in part a sharp increase in national income.

The total state budget is divided into two parts; the first comprises the budget of the Federal Government which is balanced, while the second includes the budget of the six Autonomous Republics, and shows a comparatively small deficit which should be covered by receipts of the Federal Government.

More than one-half (54.24 per cent) of the 1947 Federal budget is allocated to the financing of the national economy. The following expenditures are assigned to individual branches of the economy.

^{1/} This fund was established to finance reconstruction investments, and probably consisted of the proceeds of the sale of UNRRA supplies and the sale of confiscated property of collaborators. In 1946 its resources amounted to 9 billion dinars.

Expenditures
(in millions of dinars)

Industry	9,730
Mining	6,097
Transport	4,038
Construction	2,800
Finance	3,383
Sea Transport	1,247
Agriculture and Forestry	333
Foreign Trade	<u>202</u>
	27,830

A total of 3,300 million dinars is allocated for reconstruction of towns and villages destroyed by the war. Expenditures for social insurance, pensions, etc., amount to 8,353 million dinars, corresponding to 14.02 per cent of Federal expenditures; and 13,550 million dinars, or 22.7 per cent of Federal expenditures, is assigned to national defense.

As shown in the following table, the most important revenue item in the 1947 budget is the turnover tax.

Receipts
(in millions of dinars)

Turnover tax	37,774
Profits from state enterprises	3,100
Social insurance	8,800
Authorities and institutions	1,155
Reparations	2,900
Stamps and Contributions	800
Customs, Duties	400
Income taxes	8,000
Reconstruction fund	7,000
Amortization fund	<u>2,500</u>
Total -	<u>72,430</u>

The very large increase in the revenue from the turnover tax may be presumed to be due in part to the imposition of new taxes as well as to more effective methods of collection.

6. Foreign Trade

Prewar

The structure of the prewar Yugoslav economy made it inevitable that exports should consist of raw materials and foodstuffs and imports of industrial products, capital goods, and raw materials for existing industries, particularly cotton.

Even though in prewar years, grains, livestock, meat, and lard accounted for about 50 per cent of the total export value, they represented only a relatively small proportion of total production, normally less than 10 per cent of the grain crop and not more than 15 per cent of the prewar production of meat. Next in importance in the country's export trade was timber representing about 15 per cent of total exports. Despite considerable deposits of copper and lead, their export amounted to only 10 per cent of all exports.

Prewar food exports were sustained at a high level only at the expense of a low standard of domestic consumption. The exports came from the so-called active regions in Serbia (especially from the Banat and Voivodina, north of Belgrade), where grain yields were about twice as high as the national average. In other parts of the country, the soil is poor and primitive methods of cultivation are additional reasons for very low yields. The prewar population in these grain-deficit areas (about 3.5 million) predominantly rural, was badly fed. Food exports, therefore, did not indicate any excess of production above the nutritional requirements of the population.

About 30 per cent of total imports consisted of capital goods (machinery for industry, machinery for electrification of the country, and railway equipment). Another 25 to 30 per cent consisted of finished and semi-finished textile products, as well as of cotton. A more precise picture of the distribution of imports can be derived from the table below which, while giving import data only for 1938, can be considered as representative for the whole prewar period (except for the item, "machinery and apparatus," which usually was smaller than in 1938 when Yugoslavia started to re-arm).

<u>Yugoslavia's Imports in 1938</u>		
<u>Commodity</u>	<u>Million Dinars</u>	<u>Percentage</u>
Raw cotton and cotton goods	787.9	16
Iron and iron manufactures	571.1	11
Machinery and apparatus	496.7	10
Wool and woolen goods	429.4	9
Transportation equipment	250.6	5
Food	214.0	4
Coal	182.0	4
Electrical machines and apparatus	180.7	3
Leather and leather goods	137.3	3
Gasoline, oils and lubricants	126.9	3
Silk and silk goods	109.0	2
Vegetable fibres and yarns	95.0	2
Artificial organic colors	66.3	1
Oil seeds	45.2	1
Drugs and medicines	42.2	1
Miscellaneous	<u>1,240.7</u>	<u>25</u>
	<u>4,975.3</u>	<u>100</u>

Before the war Yugoslavia's balance of trade was favorable as shown in the following table:

Prewar Foreign Trade
(in millions of dinars)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1935	4,030	3,699	+ 331
1936	4,376	4,077	+ 299
1937	6,272	5,234	+ 1,038
1938	5,047	4,975	+ 72
1939	5,521	4,757	+ 764

This result was achieved only by strict import control and considerable subsidization of exports for which purpose multiple exchange practices were applied.

After 1932, Yugoslavia was obliged more and more to use the device of quotas and clearings in her foreign trade so that by 1937 nearly 70 per cent of her total trade was transacted with countries with which it had clearing agreements.

The primitive production methods in agriculture, inadequate transportation, and antiquated saw mills in forest economy retarded any effort on the part of the Government to expand exports in these fields. Expansion of mineral exports was also scarcely possible, the lead and copper mines being handicapped by worn-out and antiquated machinery; large investments were needed to raise the productivity of the miners and thus bring prices down to a competitive level with other production centers.

Territorial Distribution

The largest percentage of Yugoslavia's prewar exports went to the Danubian region and Germany. In fact, in the late 30's, Germany became the predominant foreign buyer and supplier of the country. After 1929, when Germany imported 10 per cent of total Yugoslav exports, her share rose steadily until in 1938 it reached 36 per cent of total exports. It should be mentioned, however, that there were forces in Yugoslavia which resisted this economic penetration of Germany and were desperately trying to find markets for their products in other Western European countries. While not quite successful in this, they achieved notable results. In the period 1936-1938, the United Kingdom received close to 10 per cent and the United States 5 per cent of the total exports of the country. These figures, when compared with 1.1 per cent and 1.4 per cent, respectively, in the period 1927 to 1929, indicate remarkably large increases.

Principal Consumer Countries

(in percentages of total exports in years 1936-1939)

<u>Year</u>	<u>Total</u>	<u>Germany</u>	<u>Austria</u>	<u>Czecho- slovakia</u>	<u>U.K.</u>	<u>Italy</u>	<u>U.S.</u>	<u>Hungary</u>	<u>All Others</u>
1936	100	23.7	14.6	12.3	9.9	3.1	4.9	3.8	27.7
1937	100	21.7	13.0	7.9	7.4	9.4	4.6	3.6	32.4
1938	100	35.9	6.1	7.9	9.6	6.4	5.1	4.3	24.7
1939	100	31.9		14.5	6.6	10.6	5.1	5.2	26.1

Principal Supplier Countries
(in percentages of total imports in the years 1936-1939)

<u>Year</u>	<u>Total</u>	<u>Germany</u>	<u>Austria</u>	<u>Czecho-slovakia</u>	<u>U.K.</u>	<u>Italy</u>	<u>U.S.</u>	<u>Hungary</u>	<u>All Others</u>
1936	100	26.7	10.3	15.4	8.5	2.5	6.4	3.6	26.6
1937	100	32.4	10.3	11.1	7.8	8.2	6.0	2.7	21.5
1938	100	32.5	6.9	10.7	8.7	8.9	6.0	3.8	22.5
1939	100	47.7		6.6	5.1	11.7	5.2	3.6	20.1

Postwar Trade

The composition of Yugoslavia's prewar exports of which more than half had been agricultural products, was such that any rapid recovery after the war was impossible. The nature of the warfare conducted in Yugoslavia after the German invasion was such that the whole country was one large battlefield. Therefore, agriculture suffered immense damage which could not be quickly repaired even with aid from UNRRA. Livestock was decimated partly by the enemy and partly by the hungry population. The sharp reduction in Yugoslavia's livestock, and the fact that cereal crops in 1945 were only about 50 per cent of the prewar level, made any sizable export of livestock or crop products in that year impossible. The export of timber, which constituted over 15 per cent of total exports in 1939, could not be resumed because of the lack of saw mill equipment and transportation difficulties. According to UNRRA reports, total exports, which amounted to \$4 million in the first 9 months of 1945, consisted mainly of products that were of secondary importance in Yugoslavia's export before the war, such as wine, grapes, alcohol, liquors, tobacco, opium, various ores, metals and sulphuric acid. Most of these exports went to the Soviet Union, Czechoslovakia, Rumania, Bulgaria, Albania, and Switzerland.

According to the same report, 1945 imports, outside the UNRRA aid program, were also very small, amounting in the first 9 months to about \$12 million.

The value of Yugoslav exports in 1946 amounted to about \$40 million. From the incomplete statistical data of Yugoslavia's trading partners, the value of imports for 1946 (excluding U N R R A supplies) can be estimated at \$40 million. According to estimates of the Yugoslav Government, exports in 1947 would amount to \$129.5 million and imports to \$420 million provided sufficient credits are available. Judging from the activities of Yugoslav trade missions all over Europe, the comparatively good harvest, and improved transportation system of the country, it seems probable that the export figure of \$130 million will be considerably exceeded, while, on the other hand, imports will not reach the limit of \$420 million since Yugoslavia has so far been unable to secure any sizable loans. The proceeds from reparations and emigrant remittances, as well as credits within the present trade and payments agreements, are not large enough to cover such a large trade deficit. Nor is it probable that the Government will substantially decrease its meager gold and foreign exchange reserves.

Postwar Trading System

Exports and imports are now under strict State control. All imports and exports are subject to previous permission, granted by the Ministry of Foreign

Trade, which also gives, in the case of imports, payment licenses after consultation with the National Bank and the Ministry of Finance. The Ministry must approve the terms of a compensation transaction. Only firms registered with the Ministry of Foreign Trade are permitted to engage in foreign trade.

Until recently, the largest part of Yugoslavia's foreign trade was carried out within the framework of clearing agreements or on the basis of barter. By May 10, 1947, Yugoslavia had concluded either clearing and payment agreements, or payment agreements, with the following countries: Albania, Belgium, Bulgaria, Norway, Poland, Rumania, USSR, France, Netherlands, Czechoslovakia, Switzerland, Hungary, and Sweden.

7. Balance of Payments

The general characteristics of Yugoslavia's prewar balance of payments are illustrated by the following statement of the current balance for the year 1935, which has been derived from the League of Nations publication:

Balance of Payments, 1935 ^{*/}			
<u>Current Items</u>			
(in millions of dollars)			
	<u>Receipts</u>	<u>Payments</u>	<u>Net Balance</u>
Merchandise	94.9	88.1	+ 6.8
Freight, shipping commissions, etc.	7.3	1.6	+ 5.7
Interest and dividends	--	23.2	- 23.2
Amortization payments	--	2.2	- 2.2
Tourist expenditures	7.1	3.6	+ 3.5
Emigrants' and immigrants' remittances	6.6	1.2	+ 5.4
Government transactions	2.1	1.8	+ 0.3
Miscellaneous	<u>0.6</u>	<u>0.6</u>	<u>0.0</u>
Total Current Items	<u>118.6</u>	<u>122.3</u>	<u>- 3.7</u>

Reliable data on capital movements are not available. It appears that the small deficit of the current balance in 1935 was covered by a decrease of Yugoslavia's gold and foreign exchange resources.

Apart from the comparatively large requirements for debt service (only partly covered by the small export surplus), invisible items were of little significance. In the 1920's, emigrants' remittances and net income from shipping and transport played a larger part in Yugoslavia's balance of payments but they were not sufficient to cover the debt service. Before 1931, in the period of prosperity, it was mainly the influx of foreign capital which kept the balance of payments in equilibrium. In 1931, a strict regime of exchange control was introduced and the transfer of debt service payments was suspended. Throughout the 1930's foreign loans could not be obtained and capital movements were quite insignificant.

^{*/} Dinars have been converted into current dollars at the annual average exchange rate of 1 dinar = 2.29 U.S. cents.

In order to give a more complete picture of the prewar balance of payments than can be obtained from the statement for a single year, the net figures of the main current items for the period 1928-1936 are given in the following table:

Main Current Items of the Balance of Payments
1928-1936
(in millions of dinars)

	Merchandise Net	Interests & Dividends Net	Emigrants' Remittances Net	Shipping & Tourist Net
1928	- 1,391	- 1,417	695	305
1929	326	- 2,145	766	352
1930	- 180	- 1,763	639	328
1931	0	- 1,687	700	297
1932	195	- 640	206	197
1933	495	- 296	122	232
1934	305	- 413	120	260
1935	330	- 1,092	237	279
1936	299	- 860	248	233

The export surplus on merchandise account which became a regular feature in the 1930's resulted mainly from trade with clearing countries, and Yugoslavia found it difficult to obtain sufficient amounts of convertible foreign exchange for imports of raw materials from overseas (especially cotton, wool, etc.).

It may be concluded that the equilibrium of the balance of payments of Yugoslavia before the war was always precarious. After the cessation of the capital inflow from abroad, the transfer of debt service payments was largely eliminated by exchange control, and foreign trade was regulated by an elaborate system of import and export restrictions.

Data for the postwar period are inadequate for the construction of a balance of payments estimate. The most important item in the 1945 and 1946 balance of payments was UNRRA supplies, valued at \$420 million (partly delivered in 1947), excluding costs of transportation, services of UNRRA, etc. Regular exports and imports amounted to about \$40 million each.

For 1947, the Yugoslav Government submitted to the United Nations the following balance of payments estimates:

(in millions of dollars)

<u>Credits</u>		<u>Debits</u>	
<u>Merchandise Exports</u>		<u>Merchandise Imports</u>	\$ 463.8 ^{1/}
		<u>Other payments</u>	3.7
Agricultural and food products	\$ 53.0		
Animal products	6.0		
Lumber	31.3		
Industrial products	11.0		
Mining and smelting	<u>28.2</u>		
Total exports	\$ 129.5		
Other receipts	<u>2.6</u>		
Total credits	\$ <u>132.1</u>	Total debits	\$ <u>467.5</u>
Deficit	\$ <u>335.4</u>		

^{1/} After deduction of \$40.8 million for prospective UNRRA deliveries in 1947.

The UN Technical Committee on Relief estimated that the minimum requirements for food, agricultural supplies, clothing, foot-wear and medical supplies would amount to \$193.7 million. Therefore, even if imports for reconstruction purposes were excluded, a balance of payments deficit of about \$60 million would have to be covered. Yugoslavia has not received any foreign credits in the postwar period and her limited gold and foreign exchange resources cannot be used for current imports. It is possible, however, that within the framework of the trade agreements recently concluded with the USSR, Czechoslovakia, Hungary, and other countries, her most urgent import requirements can be satisfied until the new harvest and increased industrial production make possible a substantial increase of exports.

8. Exchange Resources and Foreign Debts and Credits

Exchange Resources

The gold and foreign exchange resources of the country are concentrated in the National Bank of Yugoslavia. According to its communication to the Fund of June 16, 1947, the gold holdings of the National Bank as of December 31, 1946, amounted to U.S. \$62.1 million, of which \$48.1 million were held abroad, and \$14 million in the country. However, as of the date of this communication, of the \$48.1 million, only gold to the value of \$1.3 million was at the free disposal of the National Bank, while the remaining \$46.8 million was blocked by the U.S. Government at the Federal Reserve Bank of New York, where it had been shipped for safe keeping during the war.

The foreign exchange resources as of December 31, 1946, were given in the same communication at U.S. \$23.6 million. They consist of:

(in millions of U.S. dollars)

U.S. dollars	17.6
Canadian dollars	0.3
£ sterling	4.5
Swiss francs	1.0
Swedish kroners	0.1
Belgian francs and other Western European currencies	0.1
Total	<u>23.6</u>

Of this sum, \$1.6 million, which constitutes contracted liabilities of the National Bank as of December 31, 1946, should be deducted, so that the freely available foreign exchange amounted to only \$22 million.

Thus, while the total holdings of gold and foreign exchange of the National Bank of Yugoslavia as of December 31, 1946, amounted to \$85.7 million, only \$37.3 million were freely available.

Foreign Debts and Credits

According to a statement of the National Bank of Yugoslavia submitted to the Fund in a letter of May 10, 1947, the Yugoslav foreign state debt as of that date consisted of \$84.1 million, of which long-term debt amounted to \$50.5 million, and short-term debt \$33.6 million.

In this sum, however, debts contracted during the war are not included, particularly those emanating from the lend-lease aid extended by the United States Government which amounted to \$32 million, and from the mutual aid extended by the United Kingdom Government. In addition, by the end of 1938, foreign investors, particularly from the United Kingdom, France, Germany, Switzerland, United States, Czechoslovakia, and Italy had invested in Yugoslav enterprises, capital valued at \$106.3 million. In view of the nationalization of Yugoslav industry and the Government taking over the foreign obligations of these enterprises, this sum should be added to the above indebtedness.

Except for credits within the payment and trade agreements concluded by Yugoslavia with various countries of Europe, especially Czechoslovakia and Hungary, the Yugoslav Government has not succeeded in negotiating any substantial credits. On the other hand it has extended credit to Albania.

9. Exchange Market

Exchange Control

Yugoslavia re-introduced exchange control in June, 1931, in order to prevent capital flight likely to develop as a consequence of the breakdown of the Austrian Creditanstalt. All foreign exchange transactions were restricted to banks and the purchase of foreign exchange for "speculative purposes" was prohibited. Special permits were required for the purchase of foreign exchange, and exporters had to surrender part of their receipts at the official exchange rate which was 2.32 cents per dinar. The share to be surrendered varied; it amounted to as much as 80 per cent of the total receipts in July, 1934, and was gradually reduced to 25 per cent in 1938. The remainder also had to be sold but could be offered at a higher rate.

Exchange restrictions soon led to the development of a black market; discounts up to 40 per cent over and above the official rate were paid. In 1932 bilateral clearing agreements with other countries, exercising exchange control, were started. In trading with free countries the National Bank adopted a system of premiums over and above the official rates, charged and paid on free currencies. In October, 1933, the premium was put at 28.5 per cent for gold and for all free foreign exchange. In 1936 more stringent controls of imports from countries outside the clearing system were adopted.

In 1936 all foreign exchange holdings of Yugoslav citizens and banks were ordered to be converted into dinars at the National Bank on the basis of the official rate plus a premium of 28.5 per cent.

Following the occupation and partition of Yugoslavia, all financial transactions in all parts of the country came under German control.

After the war Yugoslav Exchange Control was re-introduced again by a law of September, 1945. The following are its main features: (1) No transactions or undertaking of obligations in foreign exchange by a Yugoslav resident are permitted except with the permission of the Ministry of Finance. Moreover, these can be contracted only through the banks authorized for this purpose by the National Bank of Yugoslavia. (2) Residents are obliged to offer for sale to the National Bank all foreign exchange, foreign securities, and foreign gold coins. (3) Import and export of Yugoslav banknotes is limited to 500 dinars per person in notes of small denomination up to 50 dinars.

Exchange Rates

At the time when exchange control was re-established by a decree of the Ministry of Finance, the price of gold was set at 56,300 dinars for one kilogram of fine gold. On the basis of this price the rate of exchange for the U.S. dollar has been determined at 50 dinars to 1 dollar. The parity rates of other currencies were established on the basis of the dollar cross rate. According to the law all transactions have to be concluded at the official rate. There is no information available about the spread between buying and selling rates.

The calculation of the comparative purchasing power of the dinar and U.S. dollar based on indices of wholesale prices in the two countries, seems to indicate that in January, 1947, the dinar was overvalued in terms of the U.S. dollar by about 55 per cent, and based on the cost of living indices, by about 57 per cent (1936 taken as a basis). This calculation, however, is of dubious significance as the price structure in Yugoslavia is rather complicated. For example, besides controlled prices, there are also free market prices, at least for some agricultural products, and, on the other hand, prices for some rationed goods (e.g., meals in the workshops) are below the official prices.

Black Market

While it is known that a black market in foreign banknotes exists in Yugoslavia, little information is available as to its significance. In view of the fact that all foreign trade transactions are concluded by state supervised enterprises, the sources of black market foreign exchange are limited to a fraction of remittances which are sent through uncontrolled channels and to foreign travellers.