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ECONOMIC COMMITTEE

THE YUGOSLAV ECONOMY:  
RECENT DEVELOPMENTS, PROBLEMS AND PROSPECTS

Note by the Chairman

The attached paper is the final version of a study on recent economic developments in Yugoslavia. It takes account of contributions from several member countries and of the outcome of the special meeting of the Committee held on 10th April, 1975 and attended by a number of senior officials.

2. The first twenty paragraphs of the report have already been submitted to the Economic Committee under reference ED/EC/75/29 and were discussed by it at the meeting on 7th May, 1975. The present document likewise takes account of the changes suggested on that occasion. I would remind you that the Committee decided at the aforementioned meeting to submit these same paragraphs to the Council.

(Signed) J. BILLY

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This document includes: 2 Annexes

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THE YUGOSLAV ECONOMY:  
RECENT DEVELOPMENTS, PROBLEMS AND PROSPECTS

SUMMARY AND CONCLUSIONS

(a) Recent trends

1. The performance of the Yugoslav economy in 1974 with a 7% volume increase in social product as against 5% the year before and an increase in industrial output of 11% as against 6%, was in many respects a noteworthy achievement, given the changed international economic circumstances of the past 18 months. However, these results must not be allowed to conceal the very real problems confronting Yugoslav development efforts, viz. inflation, unemployment, the balance of payments deficit and sharp regional inequalities.

2. Inflation, which has been a problem for a long time, is getting worse. After a 20% rise in 1973, the official cost of living index rose again by 21% in 1974. The price rises noted during these two years are mainly the result of the increased cost of imports, the unit value of which went up by 20% in 1973 and by 46% in 1974. At the same time, the economic upturn noted last year probably also contributed to the situation by sharply boosting investment expenditure, wages and consumption.

3. On the employment front, the situation remains difficult in spite of satisfactory progress in 1974 (up 5% by comparison with 1973). Unemployment, which is still on the increase, affected 10% of wage earners at the end of the year, a very high proportion for a socialist economy. The emigration of workers, of whom some 900,000 were employed abroad in 1973 (chiefly in Western Europe) has greatly slackened. Fortunately, the number of home-comings has so far been small in spite of the economic difficulties facing most of the West European countries in which the Yugoslav immigrants work. Between 50,000 and 80,000 people came home in 1974 and most of them set themselves up in the private sector, mainly in trade, tourism and agriculture. This type of reintegration has the advantage of not increasing employment problems in the state-controlled sectors, although the private sector's absorption capacity is limited. A really large-scale return, which would swell the official figure of 500,000 unemployed, cannot be wholly ruled out if the economic situation in the West continues to deteriorate. This inflow of labour might well create a critical situation with which the economy would find it hard to cope.

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4. In order to contain the price rises, the government is aiming to curb the growth of consumption in 1975; for this purpose it seems to be counting essentially on the social agreements concluded under the self-management system. In spite of the wish to moderate the increase in consumption, the economic growth rates for 1975 have been set fairly high: 6% more than in 1974 for social product, between 7% and 7.5% for industrial output and 3% for employment. This growth plan will depend essentially on a continuation of the investment drive and the expansion of exports. However, it could be very adversely affected by a continued deterioration in the international economic climate, since this would entail for Yugoslavia both an increase in the cost of the capital goods required for its investment projects and a stagnation of exports because of the drying up of outlets.

(b) External trade relations

5. The chronic foreign trade deficit has become one of the chief problems of the economy. In 1974, imports (\$7.5 milliard) were only 50% covered by exports, with the result that there was a big deficit of \$3.7 milliard as against \$1.6 milliard in 1973. This worsening of the trade balance is largely due to the fact that the increased cost of imported raw materials, energy products and semi-manufactured goods was not offset by a sufficient increase in Yugoslav sales abroad.

6. Exports to the Western countries grew by only 11% whereas imports from the same source went up 62%, mainly because of the drop in the volume of Yugoslav sales to the countries of the European Community. On the other hand, trade with the Third World continued the upward trend started in 1973 and the big disproportion between the rise in imports (up 113%) and that of exports (up 54%) is partly explained by the increased cost of petrol and basic commodities. Lastly, trade with the Communist countries(1) expanded appreciably, with the exports growth rate (up 64%) only slightly higher than that of imports (up 59%). In terms of Yugoslavia's total world trade, the position of the Communist countries was virtually unchanged (29% in 1974 as compared with 28% in 1973) and is still well below that of the Western countries (56%), which are Yugoslavia's main trading partners.

7. Yugoslavia's foreign trade targets for 1975, viz. an increase in exports by 10% in real terms and a 4% limit on the rise in the volume of imports, are not very realistic. In spite of steps to encourage exports, the latter may well

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(1) Including China and Cuba

feel the effects of the reversal of the economic situation which is becoming evident in most of the OECD countries, tougher international competition and the domestic inflation which makes Yugoslav goods less competitive. To improve their competitiveness and although they are not thinking of taking such a measure immediately, the Yugoslavs could decide to devalue the dinar, a step which might also trigger off a reappraisal of import requirements. However the government has little room for manoeuvre where imports are concerned if it wishes to pursue the large-scale investment programme in the basic sectors and agriculture, one of the aims of which is to bring about a long-term reduction of purchases from abroad. Yugoslav economists are therefore faced with a dilemma because there is a certain contradiction between their growth targets and their desire to continue the process of trade liberalisation on the one hand, and the need to reduce the trade deficit on the other.

8. Thanks to invisible earnings, mainly from the tourist trade and from remittances by Yugoslavs working abroad, there was a large surplus on current account for the first time in 1972 and 1973 (\$419 million and \$327 million respectively). Although well up in 1974, these receipts, estimated at \$2.7 milliard as against \$1.9 milliard in 1973, were not enough to bridge the trade gap, with the result that the deficit on current account was about \$1 milliard. Uncertainty about the development of foreign trade, private transfers and tourist earnings owing to the economic situation in Western Europe, probably mean that the position will continue to be bad in 1975.

9. As in the past, Yugoslavia relied heavily in 1974 on foreign financial aid, mainly from the Western countries and specialist bodies like the World Bank. The fresh influx of medium and long-term capital in 1974, estimated at \$1,300 million (as against \$1,200 million in 1973), made it possible to finance the deficit on current account and conserve a large proportion (\$1.1 milliard at end-December 1974) of the reserves accumulated in 1972 and 1973. This year, Yugoslavia is in a position to meet its foreign commitments; debt servicing does not exceed 20% of current external receipts and the Yugoslavs intend to keep within this percentage in 1975. At the same time, however, if the new credits were to be used not only to pay for development projects but also to absorb an increasing balance of payments deficit, then the debt burden could become a problem in the comparatively near future.

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(c) Structural factors

10. Yugoslavia's economic ills stem not only from the current economic difficulties which are shared by the West, but also from certain structural factors which are linked with the country's stage of development and which the government is striving to put right.

11. Agricultural output has been affected by sharp fluctuations which are a destabilising factor for general economic growth. Although this can mainly be attributed to geographical and climatic difficulties, it is in all probability not unrelated to the backwardness of the private sector. The latter, which holds 84% of the cultivated land and accounts for two-thirds of agricultural output, has a level of productivity which is well below that of the more go-ahead farms in the State-controlled sector. The differences between the two vary greatly, however, from one area to another and so it is dangerous to generalise. For several years now the authorities have been seeking to hasten modernisation in both sectors. Proof of this is the "Green Plan" which was adopted in June 1973 and seeks to improve the situation of agriculture as a whole.

12. The rapid expansion of Yugoslav industry has been concentrated on a number of processed products, particularly in the mechanical engineering and electrical construction branches. At the same time, however, less attention has been paid to upstream industries like metal extraction and production and the energy sector. Although such a policy was understandable when, as was the case for a long time, most of the raw materials and semi-finished goods were obtainable cheaply from abroad, it may have caused the Yugoslav economy to become far too dependent on imported goods of this type, and therefore more vulnerable to world price increases, whereas the country had its own resources, albeit inadequately developed. Henceforth, by means of an increased investment drive, the emphasis is being put on the development of energy and the basic sectors, with the twin aim of lessening national dependence on the outside world and making more rational use of natural resources, which include very large ore deposits (chrome, nickel, copper, zinc, lead and bauxite).

13. Although generally speaking the efforts made to help them over the last few years have brought about an improvement in the economic position of the less developed republics and provinces, the regional inequalities are still pronounced. The per capita income of Slovenia was six times higher than that of Kosovo in 1973. Only gradually will it be possible to remove these disparities for which there are several reasons, the main one being that the mountain ranges have created a barrier between the north of the country, which is traditionally

influenced by Western economic growth, and the south, where virtually nothing was done to promote development until 1945. However, the priority now assigned to accelerated expansion of the energy, mining and metallurgical sectors should do something to reduce the inequalities, inasmuch as the less developed regions are, to a large extent, industrially geared to this type of sector.

14. The constitution of February 1974 markedly changed the form of the worker self-management system which is a feature of Yugoslav economic, social and political life. The new arrangements aim at greater rationalisation and improved economic performance, while increasing decentralisation and the rights of the workers, and at the same time allowing a freer play of market forces. The rôle of the Federal authorities has been reduced and national economic planning is to be based first and foremost on agreements between all the parties concerned and particularly between the regions and the self-managed work organizations or enterprises. It will be some time before any assessment can be made of this new and complicated system which carries with it the risk of a fragmentation of centres of activity and a break-up of the decision-making process which could disrupt economic co-ordination.

(d) Defence expenditure

15. In spite of unfavourable economic conditions, Yugoslavia has set itself very ambitious defence targets which underline the country's sensitivity to anything touching on its national independence. Military expenditure, which has increased by 48% accounted for \$29.1 milliard in the 1975 Federal budget as against \$19.6 milliard last year. Because of inflation, however, the increase in real terms is less (something like 20% to 25%). The transfer to the Federal authorities of responsibility for part of the country's defence, formerly the responsibility of the republics and communes, is a further explanation of the increase. At the same time, the bigger defence appropriations reflect a desire on the part of the authorities to modernise the armed forces and improve conditions for servicemen.

(e) Outlook and concluding remarks

16. Like a number of other countries, Yugoslavia will be facing serious economic problems this year. The extent to which these are solved and the fairly ambitious targets met, will depend largely on international economic developments, since Yugoslavia will continue to be heavily dependent on the outside world for some time to come.

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17. In this connection, the way in which relations with the Western world develop will be of overriding importance; if the advantages which Yugoslavia derives from these relations - supplies of credits, outlets for goods, employment for surplus labour and the provision of technology and equipment - remain unchanged, or virtually so, it should be able to get through the present period of recession without any really serious difficulty. But should the help which some of these factors bring stop altogether or diminish substantially, then Yugoslavia's economic problems could become really acute.

18. Were this to be so, and it is purely speculative, Belgrade's links with the Soviet Union and COMECON would take on an importance which they do not at present have. They would not, however, provide a lasting and satisfactory alternative to the close relations already existing with the West, which remain of fundamental importance. The Communist countries are hardly in a position to replace the West for credit facilities and the supply of sophisticated capital goods of which Yugoslavia has a growing need in order to promote its economic development. The Yugoslav leaders are particularly anxious to avoid a degree of economic interdependence with COMECON which would jeopardize their country's political independence.

19. The Yugoslav government is also continuing its efforts to increase economic relations with the non-aligned world. The outlook is favourable for increased Yugoslav exports of goods and services to the Middle East and the developing countries. Also, Yugoslavia can probably expect increased financial help from certain of the oil-producing states.

20. The Yugoslav economy would now seem to have entered a capital phase in its development which could take it beyond its present status of a developing economy. Among the positive factors which could help to bring this about are a high level of natural resources in relation to the country's needs, a regularly expanding industry, well-developed services (particularly tourism and transport) and a very large labour force. On the other hand, the measures taken to change the emphasis in industrial development, increase agricultural output, reduce the differences in living standards between the different regions and decentralize economic decision-making and management - and these measures will continue to be applied - can only produce results in the medium term. In the meantime Yugoslavia will be unable to do without substantial aid from abroad. It is with this in mind that the government in its economic relations is bent on making the most of every opportunity that comes its way, not only in the West but in other parts of the world too.

PART I - RECENT ECONOMIC TRENDS

A. Yugoslavia's economic performance in 1974

21. In 1974 the social product rose, in constant prices, by 7% as compared with 5% in 1973; this was an improvement on the 1974 target of 6% set by the Economic Policy Resolution and reflects the smart recovery in domestic demand. In real terms the aggregate rate of growth was 8% as compared with only 3% in 1973(1). The main reason for this development was the switch to a policy of expansion adopted by the authorities as from the second half of 1973(2).

22. Reductions in the financial burden on enterprises and the easing of credit restrictions were followed by a strong upward trend in investments; gross formation of fixed capital rose by 9% as compared with 2.5% in the preceding year. Furthermore, there was a change in the actual composition of these investments with the emphasis on the reinforcement of the country's production capacity: expenditure earmarked for the "economic" activity sector (up by 51%) increasing more rapidly than expenditure in the "non-economic" activity sector (up by 39%)(3) in contrast with 1973 when the increase in expenditure in the "non-economic" sector (up by 13%) was greater than in the "economic" sector (up by 6%)(4).

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- (1) Source: OECD, 1975 draft economic study on Yugoslavia
  - (2) Steps to stabilise the economy and hold it in rein were taken by the Yugoslav government in 1972 and early 1973. Their purpose was twofold: on the one hand, to curb the rise in demand and its inflationary effects and on the other hand to dissuade enterprises from committing themselves to equipment expenditures without the necessary wherewithal. While it proved possible to put a number of firms on a more even keel, financially speaking, the effect of falling demand was more to limit the growth in the output of non-agricultural sectors than to reduce inflationary pressures.
  - (3) "Non-economic" investments consist mainly of investments in the housing, government department and public service sectors; "economic" investments are those made in sectors where output is regarded as forming part of the social product (cf OECD - Yugoslavia, 1974)
  - (4) Source: Indeks, January 1975

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23. Private consumption in 1974 was another area of high growth: 8% in real terms as compared with 3% a year earlier. The buoyancy of retail trade with a turnover in volume terms which was more than twice as high as in 1973 (7% as compared with 3%)(1), is a further reflection of this revival of consumption, due in the main to the increase in real income, estimated at 6% following a decline of 3% in 1973(2).

24. The substantial increase - 11%(3) - in industrial output further emphasises the recovery of the Yugoslav economy in 1974. This figure needs to be compared with the figure for the previous year, 6% which was the lowest since 1967. Chemistry, the timber industry and electrical engineering gave the best performances. The leather industry and naval construction, on the other hand, remained in the doldrums(4).

25. Last but not least, agricultural output, after its commendable performance in 1973 (up 9%) showed an increase in volume terms of 3% mainly as the consequence of excellent wheat (6.3 million tons or 33% more than in 1973) and sugar beet harvests (4.3 million tons or 29% more than in 1973)(5).

B. Present economic difficulties

26. Last year's economic growth notwithstanding, there are two persistent black spots, namely inflation and the employment situation. The problems in this field have been exacerbated by the present world economic situation.

27. As throughout the West, inflation has gained momentum. The official cost of living index rose yet again in 1974 (see table below). There was continuing pressure on prices, largely due to imported inflation. Domestic prices suffered the effects of the spectacular rise in the unit price of imports, reflecting the higher cost of energy and of certain commodities which

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- (1) Source: Indeks, February 1975  
(2) Source: Study on the Yugoslav economy in 1974, furnished by the Canadian Delegation. The drop in real income in 1973 was caused by the combined effects of monetary erosion and the restrictive policy on incomes hitherto applied by the authorities  
(3) Source: Indeks, February 1975  
(4) Table J at Annex I gives a breakdown by branch of the rate of growth of industrial output since 1972  
(5) Source: Le Courrier des Pays de l'Est, October 1974

Yugoslavia has to buy abroad. The impact was all the greater because imports, in the case of the Yugoslav economy, represent a relatively heavy burden - 26% in 1973 and about 30% in 1974 - by comparison with the estimated value of the social product. Apart from these outside factors, the recovery in domestic demand and, in particular, in investments may have contributed to even greater pressure on prices last year.

TABLE I

TRENDS IN THE MAIN PRICE INDICES  
(percentage annual growth rate)

|   | 1970<br>(1) | 1971<br>(1) | 1972<br>(1) | 1973<br>(1) | 1974<br>(2) |
|---|-------------|-------------|-------------|-------------|-------------|
| Producer's price:<br>agricultural produce   | 15.0        | 26.1        | 24.1        | 25.0        | (14)(3)     |
| Manufacturer's price:<br>industrial produce | 9.0         | 15.6        | 11.1        | 12.9        | 29          |
| Cost of living                              | 11.0        | 15.3        | 16.4        | 19.5        | 21          |
| Unit value of exports                       | 9.0         | 4.6         | 6.1         | 19.0        | 32          |
| Unit value of imports                       | 8.0         | 3.7         | 5.4         | 20.3        | 46          |

Sources: (1) OECD, Economic Studies, Yugoslavia, April 1974  
 (2) Indeks, February 1975  
 (3) January-November

28. Although little information is available on this subject, it is believed that liquidity has once again become a problem for enterprises. The shortage is due to the fact that a number of investments have been made before the funds have actually become available. The consequences include, inter alia, overlapping of reciprocal debts between enterprises and an increase in the indebtedness of these enterprises outside the banking system. The Yugoslav authorities are believed to be considering changes in the rules for payments between concerns as a means of forcing enterprises to exercise greater financial discipline. Commercial banks would moreover be given a larger part to play in the granting of credits. This should lead to better co-ordination and to greater mobility of capital and thereby assist the financing of investments.

29. The growth of the Yugoslav economy in 1974 was matched by a sizeable increase in the number of jobs which rose by 5%, as compared with 2% in 1973 and 4% in 1972. Nonetheless, the numbers of unemployed went up as a consequence of the almost

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complete standstill in emigration, hitherto a regulating factor. The average number of unsuccessful applicants for jobs during the first eleven months of the year was up by 17% by comparison with the corresponding period of 1973; it accounted for 10% of wage earners in 1974 as compared with 9% in the previous year(1).

30. While 100,000 Yugoslav workers are reported to have gone abroad in 1973(2), there was undoubtedly a sharp drop in new departures last year following the ban on immigration introduced by Germany, Switzerland and Austria, the main host countries. It might have been expected that a large number of workers would return home, inasmuch as the economic difficulties being encountered by most Western countries normally rebounds in the first place on the employment of immigrants. This in fact was not the case. A number of unemployed workers probably chose to extend their stay in the host country where they are eligible for unemployment benefits. Of the 900,000 Yugoslavs working abroad in 1973, only 50,000 to 80,000 went home last year and were apparently able to settle in the private sector of the economy (particularly agriculture, trade and tourism) in which they have invested their savings. The ability of this sector to absorb manpower is however limited. A large-scale homeward movement which could not be ruled out if the economic situation in the West were to get worse, could create a labour market situation with which the Yugoslav economy would find it hard to cope.

C. Outlook for 1975

31. The 1975 Economic Resolution emphasises the need to deal with domestic inflation. To keep down the rise in demand, the rate of increase in budget expenditures by the Republics and communes will be kept at three-quarters of the rate of increase in the value of the social product(3). The Federal budget, which is up by 23% to a total of 53.2 milliard dinars (about \$3.4 milliard)(4) also appears to have been planned with this aim in view ; the gap between expenditure and income

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- (1) Source: Indeks. Employment and unemployment trends since 1971 are as shown at Annex I, table C
  - (2) Source: Ekonomiska Politika, 8th July, 1974, drawn on in the OECD 1975 draft economic study on Yugoslavia
  - (3) Source: Study on the Yugoslav economy in 1974, furnished by the Canadian Delegation. This figure will however be adjusted according to the Republics and communes
  - (4) Within this budget, defence appropriations had risen considerably. This point is discussed in paragraphs 78 and 79.

(3.5 milliard dinars or \$200 million) will be covered by a bond issue. The Yugoslav authorities also plan to damp down growth in private consumption(1). To this end, Slovenia has agreed to restrict the increase in real income to 1% for this year and the other republics to between 2.5 and 5%.

32. The 1975 Economic Resolution nonetheless contains ambitious growth targets which have been motivated by the leadership's determination to speed up the country's development and to improve the job situation; the aim is to secure a rise in the social product in volume terms by 6%, in industrial production by 7%-7.5% and in the number of wage earners by 3%. This policy is based on continuing expansion of productive investments - the rate of growth of investments in plant has been fixed at 9.5% - and on a drive to boost exports which should rise this year, in volume terms, by 10%. There is some uncertainty about the attainment of these goals given the international economic situation. The decline of economic activity in the Western countries importing Yugoslav goods could constitute a serious impediment to efforts to promote sales abroad; at the same time, the continuation of world inflation could lead to an increase in the cost of the imported capital goods on which the proposed investments will be dependent.

PART II - FOREIGN TRADE RELATIONS

A. Commercial transactions

(a) Quantitative trends in 1974

(i) General situation

33. The ups and downs of foreign trade, where there is chronic deficit, now form one of Yugoslavia's chief economic headaches. In 1974, imports (\$7.5 milliard) rose in value terms by 67% over the previous year, whereas exports (\$3.8 milliard) were rising only half as fast (33%). This being so, the trade gap widened considerably, from \$1.6 milliard to \$3.7 milliard, or, in other words, by 130%. Imports which had been 63% covered in 1973 where only 50% covered in 1974. In that same year, the relatively larger increase in the unit value of imports by comparison with exports (up by 46% as compared with 32%) led to a deterioration in the terms of trade(2).

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- (1) According to the OECD draft 1975 economic study on Yugoslavia, consumption did in fact begin to drop towards the end of 1974. Statistics showing the extent of the drop are not yet however available
- (2) Source: Indeks, February 1975

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34. In July 1974, faced with this worsening situation on the foreign trade front, the Yugoslav leadership brought in what were in principle temporary measures to hold down imports. A system of import licences was introduced for a certain number of items; currency allocations for the second half of 1974 were cut by 17% in the case of consumer goods and by 10% in the case of raw materials and semi-finished goods. These measures appeared to have been applied to only a small proportion of Yugoslav purchases abroad. They were not at odds therefore with the firm move towards the liberization of trade which had been made the previous year(1). In addition, on 29th October, the dinar was devalued by about 7% in relation to the major currencies. (The new rate was fixed at 17.2 dinars to the dollar which is roughly the rate in force before the dinar severed its connection with the dollar in July 1973.)(2).

(ii) Imports

35. Yugoslavia has been hard hit by world inflation; the size of the increase, in the value of its imports is due firstly to the higher cost of energy, raw materials and semi-finished goods which in 1974 accounted for 61% of total procurements(3). The sharp upward swing in economic activity has undoubtedly also contributed to the build up in foreign purchases. The continuing increase in imports of capital equipment (up by 39% in 1973 and by 38% in 1974) amply reflects the determination to boost the country's industrial development but also reveals the inadequacy of home production of machinery for industry.

36. Of the various factors contributing to the present imbalance, the increase in the cost of energy has a lot to answer for. In 1974, Yugoslavia bought 7.4 million tons of crude oil(4), 1 million tons of oil derivatives, 2 million tons of coal and 0.6 million tons of coke from abroad. In the case of the last two items, the main suppliers were the USSR and Poland which, in all likelihood, brought their prices into line with world rates.

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- (1) The proportion of imports freed in 1973 rose from 28% to 52% of the value of purchases in the previous year. In addition, the rule whereby imports were linked to the export performances of firms was abolished on 1st January, 1974
  - (2) The relationship between the dinar and the dollar in 1973 and in 1974 is shown at Annex I, table L
  - (3) The structure by product of Yugoslav foreign trade and changes since 1972 are shown at Annex I, table G
  - (4) In 1973, 28% of the crude oil imported by Yugoslavia came from the USSR and 12% from Irak (source: Yugoslav Statistical Yearbook, 1974). Yugoslav statistics give no detailed account of purchases from other suppliers.

37. The increase in the price of crude oil was responsible for additional expenditure in 1974 of about \$530 million(1) which accounts for one quarter of the increase in the trade deficit. Although the Yugoslavs successfully reduced the volume of their purchases by 11%, at a time when the economic situation was looking up, oil as a proportion of total imports increased from 5% in 1973 to 9% in 1974. The Soviet Union supplies Yugoslavia with a substantial proportion of its crude oil which is delivered at world prices. Since Soviet-Yugoslav trade is conducted within the framework of bilateral clearing agreements, the increase in the price of Soviet oil did not involve an equivalent outflow in convertible currencies. Nonetheless, Yugoslavia was forced to step up its deliveries of other items to the Soviet Union and this made inroads on resources available for domestic requirements or for export to other countries.

38. The agreement with Hungary and Czechoslovakia, the precise contents of which are unknown and which related to the building of the Adriatic pipeline to supply each of Yugoslavia's partners with five million tons of oil per annum as from 1979 or 1980, should offset the increased cost of oil to some extent and in the medium term through invisible earnings in the shape of transport charges. In addition, the Yugoslavs plan to double their refining capacity to 23 million tons by 1978. It seems likely that a proportion of the refined product will be exported. Thus, the bulk (80%) of the output of the Kopar refinery is expected to be marketed abroad. This refinery with a yearly capacity of 8 million tons will, according to reports, be financed in part by Libyan and Kuwaiti capital(2).

(iii) Exports

39. Yugoslav exports, half of which consist of raw materials and semi-finished goods (see Annex I, table G) also benefited from the increase in the price of these items on world markets. Exports of semi-finished goods went up in roughly the same proportion as imports of this same type; 33% in 1973 and 64% in 1974, in the case of exports, as compared with 28% and 71% respectively in the case of imports(3). Since the effect of price increases probably worked both ways, the figures reflect a comparable real increase. (The best evidence is provided by metals where Yugoslavia's sales in

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- (1) This figure has been calculated on the basis of data published by Indeks (August 1973 and February 1975). If oil derivatives are added, the additional expenditure totals \$600 million
- (2) Source: "Le Courrier des Pays de l'Est", Paris - October 1974
- (3) Source: Indeks

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1973 covered 85% of its purchases as compared with 72% in 1972 and 40% in 1971(1). This is a positive development of which account should be taken and which is probably not unrelated to the recent increase in the production of non-ferrous metals. By and large, Yugoslav exports of these semi-manufactured goods remain well below imports in terms of absolute values. The trade balance in these goods contributed in no small measure to last year's overall trade deficit as shown in Annex I, table H.

40. The sharp drop (16%) in the value of agricultural exports last year, as compared with 1973, is mainly due to the reduction and subsequently to the suspension, in July, of beef purchases by the European Community(2). This decision nullified a large part of the trade agreement reached with the Community in 1973.

(b) Changes in the geographical pattern of trade in 1974

41. The European Community was once again Yugoslavia's main trading partner in 1974; nonetheless, the proportion of Yugoslavia's total exports taken by this group of countries (27%) was less than that taken by the European Communist countries (38%). On the other hand, the Common Market held on to its position of leading supplier, providing Yugoslavia with 40% of its imports as compared with 22% in the case of the Soviet Union and Eastern Europe combined(3). This uneven development in trade with the EEC reflects a stagnation in Yugoslav exports which rose by only 2% in value terms by comparison with 1973 and by comparison with imports which rose by 58% during the same period. Trade with the non-Communist industrialised world as a whole expanded more rapidly (exports up by 11% and imports up by 62%) as a consequence of improved trade relations with the USA and Japan(4).

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- (1) Source: Yugoslav 1974 Statistical Yearbook. No figures are available for 1974
  - (2) In 1972, the last year for which detailed statistics are available, the EEC took 75% of Yugoslav beef exports which totalled \$92.5 million. These sales accounted for 29% of Yugoslav agricultural exports
  - (3) The geographical pattern of Yugoslav trade in value terms and in percentages is shown at Annex I, table G
  - (4) In 1974, Yugoslav exports to the USA and to Japan rose by 36% and 191% respectively. The figures for imports were 90% and 74%. (Source: Indeks)

42. The development of trade with the Third World continued into 1974. Yugoslav sales to this group of countries rose last year by 54%; imports rose twice as fast (113%) but this was largely due to the increased cost of oil. The share of Yugoslav trade held by the Third World has thus increased considerably, rising from 7% in 1973 to 10% last year, in the case of exports, and from 10% to 13% in the case of imports.

43. Yugoslav exports to the European Communist countries jumped by 59% in comparison with 1973; the USSR became the country's leading trading partner ahead of Italy. As a supplier, however, the Soviet Union ranked only third, well behind Italy and, in particular, the Federal Republic of Germany. The rate of increase of Yugoslav imports from the European Communist countries, although likewise high (55%) was nonetheless below the rate of increase of its purchases in the West or in the Third World.

44. Yugoslavia also strengthened its commercial ties with China during the year under review; exports (iron and steel, non-ferrous metals and shipping in the main) rose by 132%. These exports, valued at \$110 million accounted for one-fifth of Yugoslav sales to Africa and Asia combined(1). Despite an 89% increase, China's deliveries to Yugoslavia (\$28 million) were on a modest scale.

(c) Outlook for 1975

45. The 1975 Economic Resolution provides for an increase in exports of 10% in real terms and for a ceiling of 4% on the increase in the volume of imports. These figures seem unrealistic(2).

46. Despite considerable aid, particularly in the form of export credits, Yugoslav sales could well be affected by the adverse economic winds which continue to blow in most OECD countries, Yugoslavia's main customers, particularly since deliveries to this group of countries seem relatively sensitive to economic fluctuations(3). The Yugoslavs are moreover believed

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- (1) Source: Indeks  
(2) The trade deficit for the first two months of 1975 was up 19% by comparison with the same period in 1974; this however is a partial result and cannot be extrapolated  
(3) Certain estimates made on behalf of the EEC six show that the following main branches were fairly impervious to economic fluctuations; agriculture and the food industry, chemistry and rubber, leather and shoes, textiles and clothing. Goods produced by these branches accounted for only 40% of exports to the OECD countries in 1972. It must be remembered however that these estimates, from which it is difficult to generalise, must be taken at their face value and do not lend themselves to verification

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to have misgivings about the changes made by the Commission in the system of general preferences for 1975: the freezing of certain "ceilings" could curb the upward trend in sales of certain industrial items on the Community market. Furthermore, increasing international competition - exports are more than ever a priority target for most economies - and inflation at home could take the competitive edge off Yugoslav goods on foreign markets. While this possibility has receded for the present, the authorities might have to devalue the dinar still further to recapture the competitive position of Yugoslav exports and this could have a deterrent effect on imports.

47. The creation in 1974 of large stocks of commodities and agricultural produce should make it possible to reduce imports of this type of goods in 1975. Despite this favourable factor, it seems unlikely that the increase in the volume of foreign purchases can be kept down to the 4% aimed at without the introduction of restrictive measures. Such measures would run counter to the leadership's intention to continue with the liberalisation of trade but might be forced upon them by circumstances(1). For the present the government is banking in the first instance, on a voluntary cut-back in imports within the framework of "self-management agreements" between producers, consumers, exporters and importers.

48. Assuming the introduction of controls, their application just to imports of consumer durables would have a limited effect given the relatively small proportion (4% in 1974) of this type of product as a percentage of total imports. Furthermore, the extension of possible restrictions on purchases of raw materials and capital goods would be hard to reconcile with the goals fixed by the authorities with respect to economic growth - particularly the increase of 7 to 7.5% in industrial production - and the ambitious programme of investment planned in the basic sectors and in agriculture. This programme, one of the aims of which is to reduce economic dependence on external resources in the medium term, calls for a continuing high level of imports of capital equipment.

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(1) It should be noted that the National Bank in an attempt to damp down demand, no longer provides enterprises automatically with the currency needed to pay for imports from non-Communist industrialised countries. Funds are now only granted on a case-by-case basis after careful consideration of each application

49. The Yugoslav authorities have adopted a consistently pragmatic attitude to the geographical aspect of their trade. They have given priority to the build-up of business with the non-Communist world rather than the COMECON countries. There is nothing to indicate any change in this policy but present circumstances are forcing Yugoslavia to make additional efforts to increase trade with all its partners whether they be OECD countries (particularly the EEC and the USA), Third World countries (particularly the oil-producing states), or the COMECON countries (preferably the small East European states).

B. The balance of payments

(a) Balance on current account

50. Invisible earnings, the two main components of which are remittances from Yugoslavs working abroad and tourist earnings, rose to about \$2.17 milliard net in 1974 as compared with \$1.9 milliard in the previous year. These earnings were not sufficient however to offset the adverse balance of payments which totalled \$3.7 milliard. As a result, the deficit on current account was about \$1 milliard although in 1972 for the first time and again in 1973 Yugoslavia had managed to obtain a substantial surplus (\$419 million and \$327 million respectively).

51. Remittances for Yugoslavs working abroad totalled some \$1,650 million last year as compared with \$1,400 million in 1973. This increase (18%) may seem surprising in view of the fall in the number of emigrants and of the fact that the situation is becoming precarious for a number of expatriate workers. One explanation for this situation is that part of the savings invested by emigrants in the host country may have been transferred to Yugoslavia, particularly by those who have gone home for good. According to certain estimates(1) funds deposited by Yugoslavs in the German banks totalled about \$3.2 milliard at the end of 1974 (or more than twice the amount transferred that year).

52. The government is conscious of the potential advantages for the national balance of payments of these deposits abroad. Herein lies one of the main reasons for the recent liberalisation of the regulations on foreign currency deposits in Yugoslav banks(2). In the short term, Yugoslavia could further benefit

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(1) Cf. R.F.E. - 12th December, 1974 - No. 2146

(2) The other reason for this easing of regulations could be to draw off into the banks the large amount of foreign currency circulating illegally in the country

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from an increase in transfers from emigrant workers. In the longer term, however, this inflow of foreign currencies is dependent on an improvement in the economic climate of Western Europe.

53. Income from the tourist trade - \$700 million - rose last year by 11% by comparison with 1973. Despite this apparent increase, receipts fell back in real terms as a consequence of a 19% increase(1) in the retail price of hotel services. In addition, the number of foreign visitors to Yugoslavia dropped by 11% in 1974 in contrast with the 20% increase in 1973. The drop in hotel business was less pronounced(2) as a consequence of longer stays by tourists(3). Yugoslav tourism is mainly at the lower end of the market and this makes it more sensitive to fluctuations in the economic situation of the countries of origin.

54. Exports of services in the form of engineering contracts now being signed in increasing numbers with the developing countries are also making a growing contribution to the balance of invisibles. During the first half of 1974 Yugoslav enterprises are believed to have done work in 29 of these countries and earned about \$100 million thereby; the value of the new contracts obtained during the same period was estimated at \$265 million(4). Other major agreements are understood to have been signed including one for the installation of two military airfields in Kuwait at an estimated cost of \$230 million(5). Co-operation with Kuwait has moreover increased with the creation there in January 1975 of a joint civil engineering concern with a registered capital of \$6.9 million, 40% of which is held by Yugoslavia. Libya and Iraq could also provide attractive outlets for Yugoslav engineering services.

(b) Capital account

55. Yugoslavia has turned to capital transactions where necessary to make good its deficit on current account and to provide funds for its investment drive. It is, in fact, difficult to see how the country can promote its development without financial assistance from abroad: the inflow of long-term funds

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- (1) Source: Indeks, February 1975  
(2) Source: Indeks, February 1975, the number of nights spent in hotels fell by only 7%  
(3) Source: Indeks, February 1975, the average number of nights spent in hotels by foreign visitors in 1974 was 5.45 as compared with 5.21 in 1973  
(4) Source: Economic Review, December 1974  
(5) Source: "Le Courrier des Pays de l'Est", September 1974

(loans to the government, plus suppliers' credits, plus the balance of financial credits) totalled \$1,100 million in 1972(1) (which represented 75% of the gross fixed investments in industry for that year) and \$1,180 million in 1973. According to IMF estimates, the long-term inflow of capital last year came to some \$1,300 million. These figures need to be seen against direct foreign investments which amounted at 31st January, 1974 to only \$145 million.

56. The Western countries contributed the lion's share. Of the \$944 million received by the Yugoslav government in the form of long-term loans over the period 1968-1972, only \$222 million (i.e. 23%) came from the Eastern countries. No detailed statistics are available on the origin of suppliers credits(2) but the breakdown is probably much the same. Up to 1974 at least, it appears that the \$540 million granted by the Soviet Union in 1972 had hardly been drawn. The West's financial contribution to Yugoslav economic activity was kept up last year, as witness, in particular the credit of DM. 700 million from the German Federal Republic to be provided in four annual instalments as well as a \$176 million loan by the US Export-Import Bank for the part funding of a nuclear power station estimated at \$518 million; the balance will be provided almost entirely by Westinghouse, acting as project manager and a consortium of 37 European and North American banks. Furthermore, and according to World Bank calculations, the credits obtained by Yugoslavia on the Euro-currency market totalled \$516.5 million in 1974 as compared with \$235 million in 1973.

57. Yugoslavia also gets aid from the specialised institutions. The combined total of the loans granted by the World Bank had reached \$1,100 million at the end of last year. The International Finance Company has been helping since 1970

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- (1) Source: IMF, Balance of Payments Yearbook (September 1974). Of the \$1,100 million received by Yugoslavia in 1972, \$247 million (22%) were accounted for by long-term loans to the government \$697 million (63%) by suppliers' credits and \$156 million (14%) by the balance of financial credits (the figures have been converted into dollars at current rates on the basis of SDR figures supplied by the IMF)
  - (2) The IMF statistics give a breakdown in net terms only. For 1972, the last year for which statistics are available, the balance of the suppliers' credits received from the Communist countries amounted to \$9 million as compared with \$237 million from OECD member countries

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with loans (\$52 million) and the purchase of shares (\$14 million)(1). Drawings on the IMF totalled \$225 million at 31st December, 1974, including \$170 million in application oil facility(2).

58. Financial support has likewise come from certain oil producers, mainly Kuwait and Libya. In addition to a \$110 million loan granted in 1974, Kuwait will also provide one-third of the funds for the Adriatic pipeline or about \$150 million, and part of the funds for the Kopar refinery the cost of which has been put at \$300 million. Libya is also expected to help to pay for this refinery as well as to contribute \$70 million to the Adriatic pipeline.

59. The long-term net capital inflows, coupled with the surplus on current account in 1972 and 1973, have enabled Yugoslavia to boost its reserves from \$212 million at the end of 1971 to \$1.5 milliard at the end of 1973. Fresh recourse to outside loans in 1974 has made it possible to finance the greater part of the deficit on current account with the result that reserves - \$1,139 milliard at the end of December(3) have hardly fallen. Nevertheless, the size of the reserves is somewhat illusory since the debt burden has kept pace with the rise in credits. (In 1972, the latest year for which statistics are available, debt servicing in connection with the reimbursement of long-term loans received by the government and of suppliers' credits amounted to \$569 million.)(4) According to Yugoslav statements, debt servicing at present does not exceed 18-20% of external receipts; the leadership is however aware of the problem and the Economic Policy Resolution for 1975 sets 20% as the ceiling. To this end, the number of priority sectors for the allocation of credits from abroad will be reduced.

PART III - STRUCTURAL FACTORS

60. As a country which is particularly sensitive to variations in the economic climate, Yugoslavia is perhaps more vulnerable than others to economic difficulties outside its frontiers. It must also be said that some of its difficulties are rooted in structural factors which are linked with the country's present stage of development and which the government is striving to put right.

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- (1) Cumulative data at 30th June, 1974 - Source IFC; 1974 Annual Report
  - (2) Source: IMF, International Financial Statistics; February 1975
  - (3) Source: IMF, International Financial Statistics; February 1975
  - (4) Source: IMF - Balance of Payments Yearbook - 1974 figures converted into dollars on the basis of SDR figures

A. Agriculture

61. A number of recent studies on the Yugoslav economy(1) point to a certain weakness in agricultural output. The rate of growth in recent years does not appear to have kept pace with the increase in food consumption generated by a higher standard of living and by tourism; the annual rate of increase, volume-wise, in the social product derived from agriculture is far behind the rate in other branches as can be seen from table II below. Furthermore, the growth in agricultural output has been beset by sharp fluctuations. These have to some extent had a destabilizing effect on the economy in general (cf table III) by reason of the impact of agriculture, which in 1973 contributed 18% to the formation of the social product.

62. Natural conditions - restricted agricultural potential (only a third of the country is in the plains) and the imponderables connected with a Mediterranean-type climate - are primarily responsible for this situation. In addition, Yugoslav agricultural difficulties are undoubtedly due, at least in part, to the disproportion between the state-controlled sector and privately owned land. The former enjoys favourable conditions (the large state farms are concentrated in the fertile plains) and better access to investment at all events in the past, whereas the latter is more heavily taxed and has few credit facilities even if allowance is made for the easier conditions introduced in 1971(2).

63. It will be seen that between 1963 and 1973, the private sector grew less quickly than the Socialist sector (table II). Furthermore, and although the statistics should not be taken as gospel, there seems to be a considerable difference in the level of productivity between the two sectors. Taking the criterion of the social product per worker (in real terms) as a yardstick of output. The productivity of

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- (1) Attention is called in particular to "Courrier des Pays de l'Est", Paris, December 1973
- (2) State-controlled sector: 16% of cultivated land, one-third of agricultural social product, 54% of investments.  
Privately owned land: 84% of cultivated land, two-thirds of agricultural social product, 46% of investments.  
1972 - data source Yugoslav Statistical Yearbook, 1973 and 1974

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privately-held land in 1971 equalled barely one-fifth of the productivity of the Socialist sector(1). It should be remembered however that 90% of all livestock, which makes a major contribution to agricultural exports, is to be found on peasant small-holdings. The position of privately-held land as compared with the state farms does however vary very considerably between one region and another and any attempt at generalization must be ruled out.

TABLE II

ANNUAL GROWTH RATE OF THE SOCIAL PRODUCT  
EXPRESSED IN VOLUME TERMS - (%) - 1963-1973

|                                     |     |
|-------------------------------------|-----|
| Social product                      | 6.3 |
| of which: Industry                  | 8.2 |
| of which: Agriculture (total)       | 3.0 |
| State sector                        | 6.2 |
| Private sector                      | 2.2 |
| of which: Building and construction | 5.1 |
| of which: Trade and tourism         | 7.7 |

- (1) Sources: Yugoslav Statistical Yearbook (1974) and Statistical Pocket Book of Yugoslavia (1974). The year 1971 has been chosen because it was a census year and figures are therefore available for the working population on private landholdings at that time. Expressed in 1966 prices, the social product per worker in the Socialist sector was 32,400 dinars, which is about the same as in industry, whereas in the private sector it was only 5,500 dinars. However, these two figures must be regarded as indicative only since social statistics do not give an exact portrayal of the real employment situation. (It is probable that the agricultural working population on privately-owned plots has been overestimated by the inclusion of workers engaged only part-time in agriculture.)

TABLE III  
RATE OF GROWTH OF THE SOCIAL PRODUCT (VOLUME)  
OF AGRICULTURE

|                                  | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 | 1971 | 1972 | 1973  | 1963<br>1973 |
|----------------------------------|------|------|------|------|------|------|------|------|------|------|-------|--------------|
| Agriculture<br>(total)           | + 8  | + 5  | -8   | +19  | 0    | -3   | +10  | -5   | + 8  | -1   | (+9)  | 3.0          |
| of which:<br>Socialist<br>sector | +13  | +11  | -4   | +25  | +5   | 0    | + 5  | -5   | +20  | +1   | (+5)  | 6.2          |
| private<br>sector                | + 7  | + 4  | -9   | +18  | -1   | -4   | +11  | -6   | + 4  | -2   | (+10) | 2.2          |

Source: Yugoslav Statistical Yearbook for 1974

64. Be that as it may, agricultural imports are tending to rise faster than exports: between 1968 and 1973, the yearly increase in imports (value-wise) was two and a half times as high as exports. In addition, there was greater dependence on outside sources and purchases of agricultural products in 1973 accounted for 15% of the sector's social product as compared with 8% in 1968(1). The agricultural trade balance began to deteriorate in the second half of 1973 and in 1974 only 51% of imports were covered by exports(2).

65. These developments are admittedly due, to some extent, to extraneous factors. The phenomenal increase of world prices in 1973 and 1974 for a number of imported agricultural commodities and foodstuffs (sugar for example) was one of these. Another, the restrictions placed by the European Commission on beef, had a direct effect on Yugoslav agricultural exports which include a substantial proportion of beef products.

66. The agricultural balance of payments in 1975 should benefit from the satisfactory 1974 harvests, particularly of wheat and sugar beet, as well as of the downward trend, which appeared at the end of last year, in the prices of a certain number of foodstuffs.

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- (1) Sources: Yugoslav Statistical Yearbook and Indeks  
(2) Source: Indeks, February 1975. If allowance is made for beverages and tobacco where Yugoslavia has always been a net exporter, the rate of cover of imports rises to 62%

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67. Furthermore the Yugoslav Authorities have embarked on the modernisation of agriculture with the implementation of the Green Plan, adopted in June 1973. This plan provides for the release by the Republics of the Federal State of resources which would be specifically allocated to the financing of agricultural investments. In 1974, credits were granted both to the Socialist (500 million dinars) and to the private (450 million dinars) sectors(1). The plan also provides for yearly adjustments in guaranteed agricultural prices and for special bonuses to be allocated exclusively to productive investments. Special Customs tariffs (reductions of 15% to 5%) will be allowed on imports of agricultural capital equipment.

B. Industrial growth

68. In its efforts to build up its industry, Yugoslavia has concentrated on a number of processed products derived primarily from the light engineering, electrical construction and transport industries. On the other hand, the development of the "up-stream" sectors, particularly those concerned with energy and with the production and initial processing of metals, has not been given equal importance.

69. It is, of course, not possible to achieve an identical rate of growth in every branch of the economy. Nonetheless, with hindsight, and given the recent increase in world prices for most basic commodities, the question arises whether the slower development of industries such as iron and steel, and particularly non-ferrous metallurgy has not weighed too heavily on the trade balance of a country with favourable natural conditions. The Five-Year Plan 1971-1975 places emphasis on new priorities in production; in particular, it provides for the accelerated expansion of the iron and steel and non-ferrous metals sector in which additional funds will be invested; the contribution of these two branches to the formation of the social product of industry should rise from 7.5% in 1970 to 8.6% in 1975 (in 1973, the percentage was 7.9%).

70. Recent developments in the field of industrial production are indicative of the increasing attention being paid to non-ferrous metals output which rose by 11.5% per annum between 1971 and 1973 and by 10% in 1974 as compared with 5% between 1963 and 1971. Yugoslavia thus seems to be expanding this sector where it benefits from substantial natural resources (chromium, nickel, copper, zinc, lead, bauxite). The iron and steel industry is also looking up (an 11% increase in 1974 over the previous year). Added to this there has been a strong recovery in the production of electrical energy which rose by 13% in 1974 as against 5% in the previous year(2).

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(1) Source: "Le Courrier des Pays de l'Est, October 1974

(2) Source: Indeks

71. Some difficulty may, on the other hand, have been encountered in the mechanical engineering industry, and particularly in the production of machinery. The mechanical engineering sector which is fairly highly integrated through its purchases may have been held back - although it is difficult to say how far, given the lack of adequate statistics by bottlenecks in the supply sectors, particularly in metallurgy. Mechanical engineering is a key factor in Yugoslavia's economic development and the growth of this sector would also have a positive effect on the balance of payments (see Annex I, Table H).

72. Certain Yugoslav studies(1) lend substance to the theory that the optimum use of available capital resources is far from having been achieved because of the inadequate co-ordination of industrial production. This apparently leads to an excessive dispersal of finished goods and thus to over-supply in some sectors, and at the same time to shortfalls in the manufacture of other items, such as spare parts. Foreign investors could contribute to the introduction of greater rationalization in industrial development.

73. By 31st January, 1974, ninety-seven contracts creating "joint ventures" had been signed although representing an inflow of only \$145 million in foreign capital(2). This last figure is equal to only 10% of the value of fixed investments in industry in 1972(3). Most of these agreements

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(1) See "Foundations of joint policy of long-term development of Yugoslavia up to 1985". Economic Review, October 1974

(2) Source: OECD, Foreign Investment in Yugoslavia, 1974. For the 97 agreements concluded by 31st January, 1974, the average contribution of the foreign partner was 17%. At the meeting with experts on Yugoslavia, held on 10th April, 1975, it was reported that the number of contracts of this type had now risen to 120. The amount of foreign investment is unknown however.

(3) A relatively recent source ("Le Monde", 27th January, 1975) indicates a forthcoming agreement between an American company, Dow Chemical, and the Yugoslav INA Agency for the construction and operation of a large petrochemical combine at Rijeka. The project will apparently involve several hundred million dollars and provided that the US contribution is substantial, could raise the level of foreign investments in Yugoslavia quite considerably.

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were with Western companies and only two involved Eastern partners (East Germany and Czechoslovakia). A little over a third of these investments are in transport equipment, 16% in the chemical industry and 8% in iron and steel. The majority of foreign firms have opted to settle in the developed areas (Slovenia, Croatia and Serbia), where they can find skilled labour. They have made virtually no contribution to the development of the less well-endowed regions.

C. Regional inequalities

74. Despite efforts by the Yugoslav leadership to narrow the differences between the Republics, the inequalities are still pronounced. Apart from a slight increase in Macedonia's share, the contribution made to the social product by the less-developed regions (Bosnia, Montenegro, Macedonia and Kosovo) hardly changed between 1966 and 1973 (see table IV below). Furthermore, the difference between the per capita revenue in the wealthiest (Slovenia) and the poorest (Kosovo) Republics widened slightly, the ratio increasing from 1 to 5 in 1966 to 1 to 6 in 1973 (see Annex I, table F).

75. Despite a general improvement in the poorer regions, Yugoslav regional policy has still not managed to reduce inequalities. Historical and geographical factors are partly responsible for this state of affairs. The mountain ranges contribute to the cleavage between the northern part of the country which is traditionally Western-orientated and the south where, until 1945, virtually nothing was done to promote development. It seems probable, moreover, that the relative predominance of agriculture and of the mining and metallurgical industries which have grown more slowly in recent years, have held back the development of the southern half of the country.

76. However, the priority now assigned to the expansion of basic industries (as witness current investment programmes) and Yugoslavia's desire to cut down on imports and to replace them by locally-produced goods, will in all likelihood be to the advantage of the less-developed regions where there are natural resources (coal and non-ferrous metals) which could be worked far more intensively than in the past.

TABLE IV  
REGIONAL CONTRIBUTION TO THE SOCIAL PRODUCT  
IN % TERMS (AT CURRENT PRICES)

|      | TOTAL | Bosnia | Montenegro | Croatia | Macedonia | Slovenia | Serbia<br>(including<br>Kosovo) |
|------|-------|--------|------------|---------|-----------|----------|---------------------------------|
| 1966 | 100.0 | 12.3   | 1.8        | 26.1    | 5.2       | 14.7     | 39.9 (2.0)                      |
| 1973 | 100.0 | 12.1   | 1.8        | 26.4    | 5.8       | 16.2     | 37.7 (2.1)                      |

Source: Indeks

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D. Developments in self-management

77. The February 1974 Constitution provided for some major changes in Yugoslavia's unique system of self-management(1). These changes were introduced with a view to rationalizing economic activities through the allocation of greater powers and prerogatives to workers as a body. This modification of the machinery of self-management could however lead to the excessive dispersal of decision making and therefore to greater difficulty in economic management. The Yugoslav authorities are engaged in a continuing campaign, waged through the various socio-political organizations (the League, the trade unions and the Socialist Alliance) to bring home the country's economic difficulties to the people and to encourage the self-managed units to implement the directives formulated at federal level by the conclusion of "social contracts" at regional and enterprise level. It is too early as yet however to form any judgement of the effect of these changes in the system.

PART IV - DEFENCE EXPENDITURES

78. This year has seen a large increase in Yugoslav military expenditures. Defence appropriations in the Federal budget are up by 48%, rising from 19.6 milliard dinars (about \$1.15 milliard) in 1974 to 29.1 milliard dinars (\$1.71 milliard) for 1975. It is true that part of the increase is due simply to inflation and the rise in real terms is about 20 to 25%. In addition, the transfer to the Federal budget of part of home defence, previously financed by the Republics and communes, provides another explanation for the higher expenditures. These reflect the determination of the Yugoslav leadership to modernize the forces and to improve conditions for servicemen. It is apparently intended in particular to boost the production of national armaments and of foreign armaments produced under licence, to purchase certain types of advanced equipment abroad and to update training facilities.

79. With the economic situation as uncertain as it is, this defence effort may seem surprising particularly since it could have unfavourable repercussions on the economy as a whole. The increase in military expenditures could add to inflationary stresses and the purchase of military equipment abroad seems to be in contradiction with the requirement to reduce the trade gap. On the other hand, an increase in local armaments production could have a positive effect on the employment situation.

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(1) The growth of self-management in Yugoslavia, since its introduction in 1950, is described at Annex II to this paper

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TABLE A  
AREA AND POPULATION

|                        | Area    |       | 1974 Population(1)       |       |
|------------------------|---------|-------|--------------------------|-------|
|                        | sq.km   | %     | Thousands of inhabitants | %     |
| Yugoslavia (total)     | 255,804 | 100.0 | 21,155                   | 100.0 |
| Bosnia and Herzegovina | 51,129  | 20.0  | 3,925                    | 18.5  |
| Montenegro             | 13,812  | 5.4   | 552                      | 2.6   |
| Croatia                | 56,538  | 22.1  | 4,490                    | 21.3  |
| Macedonia              | 25,713  | 10.1  | 1,730                    | 8.1   |
| Slovenia               | 20,251  | 7.9   | 1,766                    | 8.4   |
| Serbia                 | 88,361  | 34.5  | 8,692                    | 41.1  |

(1) Mid-year estimates

Source: Statistical Pocket Book of Yugoslavia, 1974 + Indeks

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TABLE B  
BREAKDOWN OF THE WORKING POPULATION  
(1971 CENSUS)

|                                   | Number<br>(thousands) | %     |
|-----------------------------------|-----------------------|-------|
| Agriculture, fishery and forestry | 3,965                 | 47.8  |
| Industry                          | 1,575                 | 19.0  |
| Building                          | 398                   | 4.8   |
| Transport and communications      | 323                   | 3.9   |
| Commerce and the hotel industry   | 524                   | 6.3   |
| Crafts                            | 434                   | 5.2   |
| Cultural and social activities    | 520                   | 6.3   |
| Other activities                  | 562                   | 6.7   |
| Total working population(1)       | 8,301                 | 100.0 |

(1) Domestic working population, i.e. excluding Yugoslavs working abroad (589,000 in 1971)

Source: Statistical Pocket Book of Yugoslavia, 1974

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TABLE C  
EMPLOYMENT

|  | 1971  | 1972  | 1973  | 1974(3) |
|--|-------|-------|-------|---------|
| Number of employed(1)<br>(in thousands)              | 4,034 | 4,210 | 4,306 | 4,514   |
| Registered unemployed(2)<br>(in thousands)           | 291   | 315   | 382   | 446     |
| Registered unemployed as a<br>percentage of employed | 7.2   | 7.5   | 8.9   | 9.9     |
| Emigrant workers(4)<br>(in thousands)                | 589   | -     | (900) | -       |

- (1) Paid domestic employment
- (2) Outstanding applications for employment (average of figures recorded at the end of each month)
- (3) January - November
- (4) 1971 census; only varying estimates are available for later years
- ( ) Estimate

Source: Indeks

TABLE D

ANNUAL GROWTH RATE OF THE SOCIAL PRODUCT  
(AT CONSTANT PRICES)

|      |      |      |      |        |
|------|------|------|------|--------|
| 1970 | 1971 | 1972 | 1973 | (1974) |
| 6.1  | 8.8  | 4.5  | 5.3  | 7      |

Source: Statistical Year Book of Yugoslavia, 1974

TABLE E

ORIGIN OF SOCIAL PRODUCT  
(CURRENT PRICES) IN 1973

|                              | millions of<br>dinars | %     |
|------------------------------|-----------------------|-------|
| Agriculture and forestry     | 59,451                | 19.4  |
| Industry                     | 110,177               | 36.0  |
| Building                     | 33,782                | 11.0  |
| Transport and communications | 23,802                | 7.8   |
| Commerce and the hotel trade | 67,669                | 22.1  |
| Other activities             | 11,249                | 3.7   |
| Social product               | 306,130               | 100.0 |

Source: Indeks

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TABLE F  
PER CAPITA INCOME

(dinars at current prices)

|             | Yugoslavia<br>(Federation) | Bosnia        | Montenegro    | Croatia         | Macedonia     | Slovenia        | Serbia(1)       | Kosovo        |
|-------------|----------------------------|---------------|---------------|-----------------|---------------|-----------------|-----------------|---------------|
| 1966        | 4,670<br>(100)             | 3,145<br>(67) | 3,014<br>(64) | 5,566<br>(119)  | 3,125<br>(67) | 8,084<br>(173)  | 5,012<br>(107)  | 1,637<br>(35) |
| 1973<br>(2) | 13,146<br>(100)            | 8,553<br>(65) | 7,972<br>(61) | 16,228<br>(123) | 9,251<br>(70) | 25,587<br>(195) | 13,679<br>(104) | 3,936<br>(30) |

- (1) Excluding Kosovo  
(2) Provisional figures

Source: Statistical Yearbook of Yugoslavia

TABLE G

FOREIGN TRADE: BREAKDOWN BY COMMODITY GROUPS ACCORDING TO THE SITC CLASSIFICATION

| PRODUCT                                  | Year | 1972         | 1973         | 1974         | COMMODITY                                  | Year | 1972         | 1973         | 1974         |
|--|------|--------------|--------------|--------------|--|------|--------------|--------------|--------------|
| <u>Agriculture and food</u>              |      | <u>14.9</u>  | <u>14.0</u>  | <u>8.8</u>   | <u>Agriculture and food</u>                |      | <u>9.3</u>   | <u>11.1</u>  | <u>8.7</u>   |
| of which: live animals                   |      | 4.3          | 1.7          | -            | of which: cereals and sugar                |      | 4.0          | 3.6          | -            |
| of which: meat and meat preparations     |      | 6.7          | 7.1          | -            |  |      |              |              |              |
| <u>Drink and tobacco</u>                 |      | <u>2.6</u>   | <u>2.1</u>   | <u>2.1</u>   | <u>Drink and tobacco</u>                   |      | <u>0.2</u>   | <u>0.2</u>   | <u>0.1</u>   |
| <u>Raw materials</u>                     |      |              |              |              | <u>Raw materials</u>                       |      |              |              |              |
| (except mineral fuels)                   |      | <u>8.2</u>   | <u>9.6</u>   | <u>9.5</u>   | (except mineral fuels)                     |      | <u>10.4</u>  | <u>10.8</u>  | <u>13.3</u>  |
| of which: wood and cork                  |      | 3.7          | 5.5          | -            | of which: textile fibres                   |      | 4.2          | 4.3          | -            |
|  |      |              |              |              | of which: leather and pelts                |      | 0.9          | 1.2          | -            |
|  |      |              |              |              | of which: cores                            |      | 1.2          | 1.3          | -            |
| <u>Mineral fuels</u>                     |      | <u>0.8</u>   | <u>0.8</u>   | <u>1.1</u>   | <u>Mineral fuels</u>                       |      | <u>5.4</u>   | <u>7.9</u>   | <u>12.6</u>  |
|  |      |              |              |              | of which: crude oil                        |      | 2.5          | 4.9          | 9.0          |
| <u>Animal and vegetable fats</u>         |      | <u>0.0</u>   | <u>0.0</u>   | <u>0.2</u>   | <u>Animal and vegetable fats</u>           |      | <u>1.3</u>   | <u>0.4</u>   | <u>0.7</u>   |
| <u>Chemicals</u>                         |      | <u>6.4</u>   | <u>6.2</u>   | <u>10.1</u>  | <u>Chemicals</u>                           |      | <u>10.8</u>  | <u>10.0</u>  | <u>10.6</u>  |
| <u>Manufactured goods by type</u>        |      | <u>27.0</u>  | <u>28.5</u>  | <u>32.7</u>  | <u>Manufactured goods by type</u>          |      | <u>26.1</u>  | <u>24.0</u>  | <u>23.4</u>  |
| of which: textiles                       |      | 4.6          | 4.6          | -            | of which: textiles                         |      | 4.3          | 4.0          | -            |
| of which: base metals                    |      | 13.7         | 15.6         | -            | of which: base metals                      |      | 13.2         | 11.5         | -            |
| <u>Machinery and transport equipment</u> |      | <u>24.4</u>  | <u>24.7</u>  | <u>23.2</u>  | <u>Machinery and transport equipment</u>   |      | <u>31.5</u>  | <u>31.4</u>  | <u>26.0</u>  |
| of which: non-electrical machinery       |      | 5.8          | 4.8          | -            | of which: non-electrical machinery         |      | 19.2         | 16.8         | -            |
| of which: electrical machinery           |      | 7.6          | 8.0          | -            | of which: electrical machinery             |      | 5.1          | 5.0          | -            |
| of which: transport equipment            |      | 11.0         | 11.9         | -            | of which: transport equipment              |      | 7.2          | 9.6          | -            |
| (shipbuilding)                           |      | (7.3)        | (6.2)        | -            | (cars)                                     |      | (1.5)        | (1.5)        | -            |
| <u>Miscellaneous manufactured goods</u>  |      | <u>15.2</u>  | <u>13.4</u>  | <u>12.1</u>  | <u>Miscellaneous manufactured articles</u> |      | <u>4.7</u>   | <u>4.1</u>   | <u>3.7</u>   |
| of which: clothing and footwear          |      | 10.3         | 8.7          | -            |  |      |              |              |              |
| <u>Other articles</u>                    |      | <u>0.5</u>   | <u>0.7</u>   | <u>0.2</u>   | <u>Other articles</u>                      |      | <u>0.3</u>   | <u>0.1</u>   | <u>0.3</u>   |
| <u>TOTAL</u>                             |      | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>TOTAL</u>                               |      | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |

Sources: Statistical Yearbook of Yugoslavia, 1974 and Indeks

TABLE H  
TRADE SURPLUS (+) OR DEFICIT (-)  
BY TYPES OF COMMODITY  
(millions of dinars)

|   | 1968   | 1969   | 1970   | 1971    | 1972   | 1973    | 1974    |
|---|--------|--------|--------|---------|--------|---------|---------|
| 1. Agriculture, foodstuffs, drink and tobacco (SITC 0 + 1)      | +2,265 | +2,402 | +1,817 | + 382   | +1,410 | - 831   | - 4,515 |
| 2. Raw materials, mineral fuels, oils and fats (SITC 2 + 3 + 4) | -2,960 | -3,673 | -4,956 | - 6,467 | -5,972 | - 9,634 | -27,204 |
| 3. Chemicals and semi-finished goods (SITC 5 + 6)               | -3,651 | -4,109 | -8,581 | -10,039 | -7,602 | - 9,189 | -16,787 |
| 4. Non-electrical machinery (SITC 71)                           | -4,931 | -5,503 | -6,753 | - 8,202 | -8,317 | -10,481 | -18,290 |
| 5. Electrical machinery and transport equipment (SITC 72 + 73)  | +1,352 | -1,691 | -3,009 | - 1,539 | + 292  | - 1,604 |         |
| 6. Miscellaneous consumer goods (SITC 8)                        | +1,557 | +1,357 | +1,152 | + 1,439 | +3,206 | + 3,406 | + 3,037 |

Sources: Statistical Yearbooks of Yugoslavia and Indeks

N A T O C O N F I D E N T I A L

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TABLE I

GEOGRAPHICAL PATTERN OF YUGOSLAV TRADE

|                                    | EXPORTS      |       |              |       |              |        | IMPORTS      |       |              |       |              |        |
|------------------------------------|--------------|-------|--------------|-------|--------------|--------|--------------|-------|--------------|-------|--------------|--------|
|                                    | 1972         |       | 1973         |       | 1974         |        | 1972         |       | 1973         |       | 1974         |        |
|                                    | Value<br>(1) | %     | Value<br>(1) | %     | Value<br>(1) | %      | Value<br>(1) | %     | Value<br>(1) | %     | Value<br>(1) | %      |
| OECD                               | 1,272        | 56.9  | 1,590        | 55.7  | (1,760)      | (46.2) | 2,112        | 65.4  | 2,825        | 62.6  | (4,565)      | (60.5) |
| including: USA                     | 150          | 6.7   | 232          | 8.1   | 316          | 8.3    | 198          | 6.1   | 187          | 4.1   | 354          | 4.7    |
| including: EEC(2)                  | 808          | 36.1  | 1,022        | 35.8  | 1,039        | 27.3   | 1,423        | 44.1  | 1,908        | 42.3  | 3,019        | 40.0   |
| including: Italy                   | 308          | 13.8  | 466          | 16.3  | 429          | 11.3   | 400          | 12.4  | 531          | 11.8  | 891          | 11.8   |
| including: Germany                 | 264          | 11.8  | 320          | 11.2  | 364          | 9.6    | 604          | 18.7  | 856          | 19.0  | 1,360        | 18.0   |
| Eastern Europe(3)                  | 785          | 35.1  | 915          | 32.1  | 1,451        | 38.1   | 792          | 24.5  | 1,090        | 24.1  | 1,693        | 22.4   |
| including: Soviet Union            | 329          | 14.7  | 409          | 14.3  | 672          | 17.7   | 283          | 8.8   | 407          | 9.0   | 752          | 10.0   |
| Non-Communist developing countries | 157          | 7.0   | 288          | 10.1  | ( 443)       | (11.6) | 309          | 9.6   | 568          | 12.6  | (1,210)      | (16.0) |
| Other countries                    | 23           | 1.0   | 60           | 2.1   | -            | -      | 15           | 0.5   | 30           | 0.7   | -            | -      |
| including: China                   | 15           | 0.7   | 48           | 1.7   | 110          | 2.9    | 3            | 0.1   | 15           | 0.3   | 28           | 0.4    |
| Total                              | 2,237        | 100.0 | 2,853        | 100.0 | 3,805        | -      | 3,228        | 100.0 | 4,513        | 100.0 | 7,542        | -      |

- ( ) Estimate
- (1) Millions of dollars
- (2) Germany, Belgium, Denmark, France, Italy, Ireland, Netherlands, United Kingdom
- (3) Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Rumania, Soviet Union

Sources: for 1972 and 1973: Direction of Trade (IMF)  
 for 1974: Indeks and data taken from the study on the Yugoslav economy supplied by the Canadian Delegation  
 The 1974 figures do not come from the same sources as the 1972 and 1973 figures and are not, therefore, strictly comparable, statistically speaking. However, they give a good indication of the geographical pattern of trade.

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TABLE J

INDUSTRY: EMPLOYMENT AND OUTPUT

| Sector                    | Labour force employed in 1973 (%) (1) | Contribution by industry to formation of social product in 1973 (%) (2) | Growth rate of industrial output % |            |             |
|---------------------------|---------------------------------------|---|------------------------------------|------------|-------------|
|                           |                                       |   | 1972                               | 1973       | 1974        |
| Electricity               | 2.7                                   | 6.5   | 12                                 | 5          | 13          |
| Coal and coke             | 3.7                                   | 2.9   | 0                                  | 2          | 4           |
| Crude oil and by-products | 1.1                                   | 2.9   | 1                                  | 6          | 10          |
| Iron and steel            | 3.7                                   | 3.9   | 8                                  | 7          | 11          |
| Non-ferrous metals        | 3.4                                   | 4.0   | 11                                 | 12         | 10          |
| Miscellaneous minerals    | 2.9                                   | 2.2   | 1                                  | 5          | 11          |
| Mechanical engineering    | 19.1                                  | 17.5  | 3                                  | 8          | 12          |
| Shipbuilding              | 1.6                                   | 1.6   | 25                                 | - 2        | 0           |
| Electrical industry       | 6.3                                   | 4.9   | 9                                  | 7          | 17          |
| Chemical industry         | 5.8                                   | 7.3   | 13                                 | 9          | 16          |
| Building materials        | 4.2                                   | 4.6   | 9                                  | 5          | 12          |
| Wood industry             | 8.8                                   | 7.4   | 8                                  | 2          | 15          |
| Paper industry            | 1.9                                   | 1.9   | 10                                 | 7          | 11          |
| Textile industry          | 16.3                                  | 12.4  | 10                                 | 6          | 8           |
| Leather industry          | 3.5                                   | 2.8   | 11                                 | 2          | 1           |
| Rubber industry           | 1.3                                   | 1.0   | 11                                 | 7          | 8           |
| Foodstuffs industry       | 8.6                                   | 9.7   | 7                                  | 6          | 8           |
| Other industries          | 5.1                                   | 6.5   | -                                  | -          | -           |
| <b>TOTAL</b>              | <b>100.0</b>                          | <b>100.0</b>  | <b>+ 8</b>                         | <b>+ 6</b> | <b>+ 11</b> |

- (1) Yearly average  
(2) Current prices

Sources: Statistical Yearbook of Yugoslavia, 1974 and Indeks

TABLE K

NATIONAL PRODUCT - INTERNATIONAL COMPARISONS

|               | Gross national product<br>in 1972 (milliard \$) | Per capita gross<br>national product<br>in 1972 (\$) |
|---------------|---|--|
| Yugoslavia(1) | 16.4  | 792  |
| Greece(1)     | 12.2  | 1,375  |
| Portugal(1)   | 8.2   | 952  |
| Turkey(1)     | 16.5  | 446  |
| Bulgaria(2)   | 14.3  | 1,663  |
| Rumania(2)    | 31.4  | 1,517  |

Note: It should be remembered that only fairly arbitrary estimates can be made of national product in Eastern Europe; the figures given are therefore only approximations and are unsuitable for strict comparisons. The results obtained depend in large measure on the exchange rates applied for the conversions and the methods used to derive an estimate of National Product from the net material product.

- 
- (1) Gross domestic product (Source: OECD, National Accounts)  
(2) Gross national product - (Estimates - Source: Planetary product in 1972, US Department of State)

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TABLE L

EXCHANGE RATE OF THE DINAR IN RELATION  
TO THE US \$

(END OF PERIOD)

|      |             |                |
|------|-------------|----------------|
| 1973 | 1st quarter | 17.00 d. = \$1 |
|      | 2nd quarter | 17.00 d. = \$1 |
|      | 3rd quarter | 15.2 d. = \$1  |
|      | 4th quarter | 15.6 d. = \$1  |
| 1974 | 1st quarter | 15.4 d. = \$1  |
|      | 2nd quarter | 15.2 d. = \$1  |
|      | 3rd quarter | 16.4 d. = \$1  |
|      | 4th quarter | 17.1 d. = \$1  |

Source: International financial statistics -  
IMF February 1975

TABLE M

THE PATTERN OF DEFENCE EXPENDITURE

(Defence Chapter in the Budget of the  
Federal Administration)

|   | 1968 | 1969 | 1970  | 1971  | 1972  | 1973  | 1974  | 1975  |
|---|------|------|-------|-------|-------|-------|-------|-------|
| Value in<br>milliards of<br>dinars                | 6.4  | 7.0  | 7.8   | 8.9   | 11.7  | 16.2  | 19.6  | 29.1  |
| Rate of growth<br>over previous<br>year           | -    | +9.4 | +11.4 | +14.1 | +31.5 | +38.5 | +21.0 | +48.5 |
| % of the<br>social product<br>(current<br>prices) | 5.7  | 5.3  | 5.0   | 4.3   | 4.8   | 5.3   | -     | -     |

Sources: UNO (Statistical Yearbooks) and OECD (Economic Survey of Yugoslavia, 1974)

For 1975: Financial Times, 16.1.1975

Note: The yearly comparisons should be viewed with circumspection as a result of changes in budget responsibilities between the Federation and the Republics in the defence field.

WORKER SELF-MANAGEMENT IN YUGOSLAVIA

1. Apart from a short period (1947-1950) when it was administratively managed from the centre on the Soviet model, the Yugoslav economy has steadily moved towards a system of increasingly autonomous production units. The purpose of this Annex is to describe briefly the progress of self-management.

2. Self-management was formally introduced by the Act of 27th June, 1950, which decreed the handing over of the running of enterprises to work collectives and the creation of Workers' Councils, which elect their own executive body (Managing Boards). It was not until 1952, with the adoption of the law abolishing centralized planning and the detailed instructions to enterprises, that the new system really got going. The organic law of 1953 further refined the institutional framework of self-management and extended it to all branches of social activity. After the first congress of the Workers' Councils, a new set of measures were taken in 1958 with a view to strengthening the rights of the collectives and spelling out the structure and responsibilities of the Workers' Councils.

3. Self-management was incorporated into the 1963 Constitution as the universal system of management for all work collectives in all branches and for the socio-political communities. The Workers' Councils were confirmed as having prime responsibility for general policy governing the running of the enterprise; its members were elected directly by the workers for two years and in turn elected Managing Boards to take decisions on the operation and activity of work organizations (enterprises). Lastly, the Workers' Councils took part in the nomination of the Director, whose task was to carry out the decisions of the Council and other managing bodies and to represent the work organization. Nonetheless, the local authorities and the Economic Chambers still retained some control over the self-management of work collectives.

4. In 1965, economic reforms, which were intended to institute a code of behaviour more closely aligned on a market economy, increased the rôle of the enterprises in decision-taking. At the same time, measures were taken to allow the enterprises more internal autonomy, e.g. by giving the Workers' Councils sovereign responsibility for nominating the Director, on the recommendation of a selection board on which the local authorities and the enterprise were equally represented (previously, the local authorities had the last word).

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5. The process was taken a step further in 1968. In order to make the scope of self-management commensurate with the increased economic measures available to the enterprises, the Government sought to give the latter greater latitude with regard to their managing bodies and the latter's responsibilities. To this end, Amendment XV to the 1963 Constitution stated that the workers of the work organization (enterprise) should set up the managing bodies, determine their field of action and the length of their mandate and decide on the conditions and procedures governing their election and resignation.

6. In practice, however, this amendment seems to have been counter-productive in that it has often led to a form of "bureaucratisation" with the directors and executive staff monopolizing power on the self-management bodies. This has happened because there has been a tendency on the part of the workers to leave the running of things to persons considered more competent in questions of management, and also because the economic trend has been towards larger and more concentrated enterprises. Thus, while the earlier legislation provided that three quarters of the members of the Workers' Council and of the Managing Boards should in theory be chosen from among the production workers, this was no longer the case in a large number of enterprises after they had been reorganized in the light of Amendment XV.

7. The constitutional amendments of 1971 brought about a further appreciable reduction in the economic powers of the Federation in favour of the republics and local authorities and thus stepped up the process of decentralization. The greatest novelty of these constitutional changes is the introduction of "social contracts" concluded between the enterprises and the socio-political communities at the level of the republics.

8. The new Constitution adopted on 21st February, 1974 markedly changed the form of self-management by further decentralizing the centres of activity and increasing the self-management rights of the workers, thus impinging on the prerogatives of executive staff.

9. By formally incorporating the Elementary Organization of Associated Labour (OAL), which can be defined as the smallest unit capable of producing marketable goods and services, the 1974 Constitution would seem to have taken the decentralization of economic activities as far as it can go. Henceforth, each unit is expected to have a very wide measure of autonomy. While it will be possible for several EOALs to join one and the same work organization (enterprise), by a contract of association

(self-management agreement) these same EOLs will also be able to leave the enterprise to which they had previously been attached; Article 37 of the Constitution stipulates however that such action may not be taken if there is any risk of hampering or paralysing work in the other elementary organizations or in the labour organization as a whole.

10. The salient feature of the internal organization of each unit seems to be the complete and continuous responsibility of the managing bodies towards the staff who set them up. In other words, it appears that the Workers' Councils and the other managing bodies merely relay decisions taken entirely and directly by the staff assembly.

11. It is still too early to perceive the results and economic consequences of the changes made to the system of self-management in the enterprises under the 1974 Constitution. The main problem of Yugoslav self-management - a unique venture - is to combine a system which gives the rank and file real power to take basic policy decisions for the production unit with the strict and effective management essential for national development. The Yugoslav Authorities hope that the changes introduced in 1974 will make it possible to achieve a balance between these two driving forces and thereby bring about a more rational organization of the economy with increased participation by all workers. However, such a system could also lead to the fragmentation of centres of activity and a break-up of the decision making process which would virtually rule out the economic co-ordination essential to rational organization.

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Main works consulted: "Constitutions et documents politiques", M. Duverger - 1956. "Socialisme et autogestion", A. Meister - 1964. "Workers' Management and Workers' Wages in Yugoslavia", H.M. Wachtel - 1973. "Les cinq communismes", G. Martinet - 1971. Notes et études documentaires No. 3888-3889 of 10th May, 1972. Financial Times. Le Monde. Le Monde diplomatique (February 1975). Radio Free Europe research papers. Constitution of the Socialist Federal Republic of Yugoslavia - Beograd - 1974.