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

ORIGINAL: FRENCH  
28th February, 1975

WORKING PAPER  
AC/127-WP/413(Revised)

ECONOMIC COMMITTEE

ECONOMIC TRENDS IN YUGOSLAVIA DURING 1973 AND 1974

Note by the Economic Directorate

INTRODUCTION

The Economic Directorate has, in response to a request made by the Economic Committee on 18th July, 1974(1) prepared a study on economic trends in Yugoslavia during 1973 and 1974. The Committee discussed this paper on several occasions in January 1975. Again, at its request, a revised and amplified version has been established in the light of the most recently available statistics, the Committee's discussions and suggestions from delegations.

SUMMARY AND CONCLUSIONS

1. The austerity measures introduced in 1972 and early 1973 succeeded in curbing the rise in domestic demand in the second year, particularly private consumption which rose in volume by only 2.5%. This led to a fall-off in the growth rate in non-agricultural sectors (industrial output in 1973 rose by 6%, the lowest level since 1967) and to higher unemployment, without easing the inflationary pressures (20% in 1973).

2. Faced with this worsening employment situation, the Yugoslav Government switched back in the second half of 1973 to a policy of reflation which had repercussions on economic growth. The indicators now available all point to strong domestic demand, particularly as regards investments, and to a sharp economic revival in 1974. Industrial output rose by 10%, agricultural output by 3% (wheat and sugarbeet harvests were excellent) and the social product increased in volume by 7%.

This document includes: 2 Annexes

(1) See AC/127-R/435

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3. 1974 saw no easing of the old problem of inflationary pressures. The cost of living climbed by 21% (as compared with 11% in 1970). The rise in prices noted during the past two years are mainly the result of extraneous factors originating in the almost general increase in the cost of raw materials, energy and semi-manufactures which have to be imported in large quantities for the country's industry. Reflationary measures have also contributed to the situation by generating a sharp upward trend in investment expenditure, wages and consumption.

4. There has also been a large rise in defence expenditure which in 1975 will probably account for 29.1 milliard dinars in the Federal budget as compared with 19.6 milliard in 1974. The size of this increase (49%) will, however, be tempered by monetary erosion and by the transfer to the Federal authorities of responsibility for part of the country's defence, formerly the responsibility of the republics and communes.

5. The new Constitution adopted in 1974 gives a new dimension to the system of self-management. The new arrangements have been designed to promote rationalisation and better economic performance through greater decentralisation of economic management (more extensive power at the base) buttressed by voluntary agreements between regions and 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 fragmentation of centres of activity and the dismantling of the apparatus of decision-making with the ensuing disruption of economic co-ordination.

6. Apart from short-term economic factors which are at the root of the current economic difficulties of a number of Western countries, Yugoslavia's economic ills can be traced to certain structural problems which the authorities are striving to resolve .

7. The Agricultural sectors seem to be having difficulty in keeping up with the increase in food consumption caused by higher living standards and by the presence of tourists. Furthermore, the growth of agriculture output has been affected by sharp fluctuations which are a destabilising factor for general economic growth. This state of affairs, aggravated by geographical and climatic difficulties is perhaps not unrelated to the backwardness of the private sector by comparison with the socialised sector. The disparities do however vary from one region to another. For some years now, the authorities have been attempting to speed up modernisation in both sectors. The "Green Plan" adopted in June 1973 is an example of the Yugoslav Government's determination to improve the agricultural situation.

8. Like a number of other countries which are trying to speed up their development, Yugoslavia has in its drive for industrial expansion, concentrated on a number of processed goods produced primarily by the mechanical engineering, electrical construction and transport industries. It could be, however, that insufficient attention has been paid to the basic sectors, particularly metal mining and production. Iron and steel and non-ferrous metal production has in fact risen and should under the 1971-1975 Five Year Plan contribute to the tune of 8.6% to the social product of industry this year as compared with 7.9% in 1973. Trends in industrial output, moreover, illustrate the importance attached to the development of the basic sectors and to the more rational use of the country's natural resources, particularly non-ferrous metals; this should lead to the speeding up of Yugoslav industrialisation and make the country less dependent on outside aid.

9. Despite the efforts made on behalf of the more backward republics and provinces, regional differences are still pronounced. Should Yugoslavia's economic growth be affected by world inflation, the recession in the non-Communist industrialised countries and the contraction of international trade, it would become more difficult to find the resources needed to plug the gaps between the developed regions and those which are less so.

10. The foreign trade position - where there is a chronic deficit - gives cause for concern. In 1973, the balance of trade was in the red to the tune of \$1.6 milliard mainly because of the higher level of purchases in the West as compared with sales. In 1974, this deficit rose to \$3.7 milliard under the combined effects of the economic revival and soaring prices on international markets. The relative increase in imports (\$7.5 milliards or + 67%) was twice as rapid as the increase in exports, (\$3.8 milliard or + 33%). The higher price of raw materials and imported energy products was only to some extent offset by the growth of Yugoslav sales on the West European markets which have so far provided the main outlets. Although Yugoslavia's trade, particularly imports, is primarily geared to the developed countries of the West, a significant increase was noted in business with the developing countries (exports up 54%, imports up 113%) and the Communist countries (exports up 64%, imports up 59%). The corresponding increases in trade with the West were 11% for exports but 62% for imports. 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 considerably smaller than that of the Western countries (56%).

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11. The Yugoslav leadership is aiming to increase exports by 10% in real terms during 1975 and to keep down the rise in the volume of imports to 4%. It is by no means certain that this aim will be achieved. Despite steps to encourage exports, the latter will depend, first and foremost, on economic developments in Western Europe and in North America which provide the main markets. Moreover, Yugoslav plans to press ahead with investments, particularly in the energy raw materials and agricultural sectors will call for a continuing high level of imports of capital equipment. Likewise, given the structure of Yugoslav purchases abroad and the increase in world prices, the authorities can do little in the way of clamping down on imports without affecting their investment programme. This being said, the Yugoslav leadership does not seem to be planning import controls for the present and, on the contrary, intends to continue with its liberalisation measures.

12. In 1974, as in 1973, there were substantial earnings from the tourist trade and remittances from Yugoslavs working abroad. These inflows, estimated at \$1.9 milliard in 1973 and 2.7 milliard in 1974 enabled the country to produce a surplus on current account of \$327 million in 1973 but were not sufficient in 1974 to offset the deficit in the balance of trade which is believed to have been near the \$1 milliard mark.

13. Yugoslavia has traditionally relied heavily on foreign aid to finance its investment programme. This aid comes almost entirely from the West. In 1973 the Yugoslav Government was granted \$1,200 million in the form of loans, supplier credits and financial credits. The amount received in 1974 is believed to have totalled \$1,300 million. In addition, Yugoslavia has obtained long-term loans from the World Bank and the IFC which had reached a cumulative total at 31st June, 1974 of \$931 million. Yugoslavia has also made use of the usual IMF facilities, as well as of the oil facility (\$48 million) created in 1974, to finance its deficit.

14. The country's dependence on the outside world is still considerable be it for economic aid, medium and long-term loans or remittances from Yugoslavs living abroad. Yugoslavia is therefore particularly sensitive to the shock-waves set off by the downturn in Western economic growth and by the world-wide exacerbation of inflationary pressures.

15. In Yugoslavia, as in a number of other countries, 1975 will probably be a year of hardship, economically speaking. The degree of progress towards relatively ambitious targets (6% increase in the social product; 7-7.5% increase in industrial output; 3% increase in employment and imports 70% covered by exports) will depend to a large extent on the strengthening of the essential links with Western Europe and North America.

Should the outlets for Yugoslavia's goods and surplus manpower fall substantially in those countries as a result of economic or political factors, and should the aid furnished by those same countries in the shape of credits, technology and plant diminish, then Yugoslavia's stability and economic development would be seriously threatened. A gradual shift towards the USSR and the other Communist countries, so far considered a poor alternative, could then be on the cards. If, on the other hand, links with the Western world remain strong, the Yugoslav economy could come successfully through this testing period, particularly in view of the new and favourable prospects which are now appearing as a result of higher exports of goods and services to the Middle East and the developing countries and of greater financial support from the oil producers and the specialist international organizations.

I. ECONOMIC TRENDS

A. Results and developments in 1973

1. In 1972 and early in 1973, the Government introduced a series of stabilisation measures designed to curb the rise in demand and make up for the lack of liquid assets resulting from over-investment by certain enterprises whose finances and credits were in need of overhauling and control.

2. While the measures intended to remedy the lack of liquid assets seem to have had positive effects on the financial position of a number of enterprises, the stabilisation drive has, on the other hand, led to some measure of stagnation in production because of the intended drop in domestic demand, unaccompanied however, by any let-up in the inflationary pressures it was hoped to eradicate.

3. The volume increase in the social product (5% in 1973) falls short of the targets of the 1971-1975 Plan which provided for a rate of growth of 7.5%. The growth rate of industrial production which provides the impetus for the Yugoslav economy (+ 6%) was the lowest since 1967. All this reflects the weakness of domestic demand, particularly private consumption, which rose in volume by only 2.5% in 1973 as against 5% and 9% in 1972 and 1971 respectively(1); this relative contraction in private consumption is mainly due to the significant decline (put at 7% in the OECD's 1974 Study on Yugoslavia) in real wages during the first half of 1973 which was the result of both monetary erosion and of action by the authorities with respect to income. One of the consequences of this slowdown in economic growth has been the rise in

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(1) Source: OECD - Yugoslavia, 1974

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unemployment: the number of job-hunters rose by 21% in 1973 as compared with 8% in 1972 and the number of registered unemployed (382,000) accounted for 8.9% on average of all domestic wage-earners in 1973 as compared with 7.5% in the previous year(1).

4. Despite austerity measures, the tempo of inflation increased in 1973: the cost-of-living index rose 19.5% as compared with 16.4% in 1972. This development can be largely attributed to the relaxation of control over prices and reflects the deferred effect of earlier inflationary pressures. Other factors are the impact of increases in import prices, which account for one quarter of the national product, and the devaluation of the dinar in February 1973(2). The increase in the unit value of imports (20% in 1973 as compared with 6% in 1972) was chiefly due to the increase in raw materials and mineral fuels which account for 30% of Yugoslavia's imports.

5. Meanwhile, the export price index showed an identical rise since Yugoslavia also exports certain basic commodities whose costs had risen (such as textiles, timber and non-ferrous metals). Although there was no change in the terms of trade, the rise did not counter-balance the inflationary effects of imports which outstripped exports by a wide margin. Moreover, the prices of certain exports with an assured market were probably sucked up to the level of prices prevailing abroad. This is an additional inflationary element whose seriousness is difficult to judge.

TABLE I  
RECENT TRENDS IN THE MAIN PRICE INDEXES  
(Percentage of annual increase)

	1970	1971	1972	1973	1974
Cost price:	(1)	(1)	(1)	(1)	(2)
Agricultural produce	15.0	26.0	24.1	25.0	(15)(3)
Cost price:					
Industrial goods	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(4)
Unit value of imports	8.0	3.7	5.4	20.3	47(4)

Sources: (1) OECD Economic Surveys, Yugoslavia, April 1974  
 (2) Indeks (January 1975)  
 (3) January-September  
 (4) January-November

- (1) See Annex I, table C, for trends in employment and unemployment
- (2) The dinar went down with the dollar till July 1973 by which time it had depreciated by 16%. The Yugoslav Government then severed the link between the dinar and the dollar and introduced a floating rate system which resulted in a revaluation of the dinar and enabled it to regain its pre-devaluation level by the end of 1973, (Source: OECD Economic Surveys Yugoslavia, April 1974).

B. Trends in 1974

6. The Yugoslav Government probably did not give the austerity measures time to work their way through to prices. By the second half of 1973, it had gone back to a policy of expansion. Investment was encouraged by reducing the financial burden on enterprises and easing credit restrictions. A number of measures were taken to stimulate private consumption with a view to increasing consumer purchasing power. These included the abolition of the stabilisation taxes, the unfreezing of certain salaries and increases for the lowest paid. The decision not to hold back growth can be regarded as a reflection of official anxiety at the prospect of a further increase in unemployment following a possible recession in Europe which would reduce the openings for Yugoslav manpower.

7. Statistics now available show that there was a smart recovery in domestic demand during 1974. Fixed investment expenditure in the first ten months of the year was 46% higher than during the corresponding period in 1973. Furthermore, there was a change in the actual composition of investments: Expenditure in the "economic" activity sector (up by 51%) rose faster than in the "non-economic" sector (up by 39%) in contrast with the situation in 1973(1)(2). The increase in private consumption, sparked off by increases in real income, estimated at 6% after a decline of 3% in 1973(3) was particularly noticeable in retail sales: Between January and November 1974, turnover rose by 7% in volume terms by comparison with the same period in 1973 as against an increase between 1972 and 1973 of only 3%(4).

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(1) Source: Indeks - January 1975

(2) "Non-economic" investments consist primarily of investments in housing, government departments and public services; investments in sectors where production is regarded as forming part of the social product are regarded as "economic" investments (cf. OECD Economic Surveys - Yugoslavia - 1974)

(3) Source: Study on the Yugoslav economy in 1974, furnished by the Canadian Delegation

(4) Source: Indeks, January 1975

8. According to preliminary data for 1974(1) the social product will rise by 7% in real terms as compared with the 6% target set in the 1974 Economic Policy Resolution.

9. Industrial output rose by 10% in 1974. As in the previous year, the headway made by the chemical sector (up by 15% in 1974 as compared with 9% in 1973) was well above average. The greatest progress however was made by the electrical construction sector which was up by 17% as compared with 7% and by the timber industry which provided the best performance by comparison with 1973 (15% as compared with 2%). In contrast, the leather industry remained stagnant (0% in 1974 and 2% in 1973) and the shipbuilding industry continued to decline (-4% as compared with -2%)(2).

10. Agricultural output in 1974 rose by 3% in volume terms, mainly because of excellent wheat (6.3 million tons, or 33% more than in 1973) and sugarbeet (4.3 million tons, or 29% more than in 1973)(3) harvests.

11. The expansion of the economy was matched by an improvement in the level of employment, which rose by 5% as compared with 2% in 1973 and 4% in 1972. Despite this increase in the number of employed, there was nonetheless a significant rise (17%) in the number of job-hunters during the first ten months of the year, as compared with the corresponding period in 1973, and the unemployment rate was close to 10% by the end of November(4). This situation stems largely from the combined effects of returning emigrant workers (50,000 in 1974) and the fact that it has become almost impossible for would-be emigrants to find work abroad.

12. As throughout the West, inflation grew worse. The cost-of-living index rose by 21% and the retail price index by 26%(5). The continuing pressure on prices can be explained at least in part by imported inflation. There was a 47% increase in the unit value of imports during the first 11 months of the year, which reflects the soaring price of energy and of the

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- (1) Source: Ekonomiska Politika dated 30th December, 1974 quoted by the RAD Background Report 5 (17th January, 1975)
- (2) The figures for 1974 cover the increase January-November 1974/January-November 1973. (Source: Indeks, January 1975). The recent trends by sector in industrial production are shown in Table K at Annex I
- (3) Source: Le Courrier des pays de l'Est - October 1974
- (4) Source: Indeks - January 1975
- (5) Source: Indeks - January 1975. The discrepancy between the two indices can probably be explained by differences in samples and weighting factors.

main commodities that Yugoslavia has to buy abroad. This state of affairs is not peculiar to Yugoslavia, but is virtually world-wide. In addition, the recovery of the different elements of internal demand, particularly investments, may have contributed to an even greater stress on prices. In this connection, there has been evidence since 1972 of a greater than expected increase in the money supply(1), which rose by 42% in 1972 and 37% in 1973. There was a further increase of 18% in the first ten months of 1974. The total money supply at the end of 1973 was thus 82.8 milliard dinars, or 27% of the value of the social product in that year.

13. The foreign trade position is increasingly unfavourable. In 1973, the accumulated deficit (1.6 milliard dollars) was offset by substantial invisible earnings, mainly in the form of remittances from emigrant workers and tourist income, which even produced a significant surplus on current account (\$327 million). In 1974, however, the trade position became worse: exports (\$3.8 milliard) rose by 33%, but imports (7.5 milliard) rose twice as fast (67%). There was a trade gap of \$3.7 milliard at the end of the year. Invisible earnings during the year were not sufficient to plug this hole and the deficit on current account was probably around the 1 milliard dollar mark. The Yugoslavs have turned to outside sources to finance this deficit. Further inflows of long-term capital have enabled the country to keep its currency reserves (which had improved considerably in 1972 and 1973) more or less intact. At the end of November 1974, these reserves stood at \$1.3 milliard, as compared with \$1.5 milliard at the end of 1973(2)(3).

14. The 1975 Economic Resolution emphasised the need to counter inflation and the adverse balance of payments. To keep down the growth in overall demand, the increase in budgetary expenditure by the republics and communes is to be fixed at three-quarters of the nominal rise in the social product(4).

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(1) According to the OECD study on Yugoslavia, which was published in 1974, the anticipated rates of expansion for 1972 and 1973 were 12% and 17% respectively

(2) Source: International Financial Statistics - January 1975

(3) The third part of the present study gives a more detailed analysis of trends in foreign trade and the balance of payments

(4) This figure will, however, be adjusted at the level of the republics and communes.

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The federal budget is up by 23% to 58.2 milliard dinars (about \$3.4 milliard); the deficit of 3.5 milliard dinars (\$200 million) will be covered by a bond issue(1). A point worth noting is the sharp increase (49%) in defence expenditure, which is expected to total 29.1 milliard dinars in 1975, as compared with 19.6 milliard in 1974(2). This seemingly substantial increase will nonetheless be tempered by monetary erosion and by increased expenditure arising out of the transfer to federal responsibility of part of home defence, which was previously left entirely to the republics and communes. The Government is believed to have planned a real increase of 6% in the social product, which would mainly reflect an increase in productive investments and higher exports. On the other hand, to reduce inflation, domestic demand would be damped down; in this context, Slovenia has agreed to restrict the rise in real income to 1% and the other republics to rates varying between 2.5% and 5% in 1975.

15. As regards foreign trade, the targets set in the 1975 Economic Resolution are a 10% increase in real terms in exports, coupled with a 4% limit in volume terms on the growth of imports. The chances of achieving these aims seem problematical, however. Despite the steps, such as the granting of credits, taken to encourage exports, trade will largely depend on developments in the West European and North American markets which will provide the main outlets in 1975. The desire to keep growth at a fairly high level and to press on with the development of the country (the planned rate of growth in capital investments in 1975 is 9.5%) in fact leaves the authorities with little room for manoeuvre in the reduction of imports.

16. The Government is making a sustained effort, through various socio-political organizations such as the League, the trade unions and the Socialist Alliance, to bring home to the public current economic difficulties and those which may have to be faced in the near future. Special emphasis is being placed on the need to reconcile the organization of the economy with the modifications to and extension of self-management introduced by the 1974 Constitution. These changes are designed to rationalise the economy and to obtain better performances within a framework of heightened powers and prerogatives at the grass roots. On the other hand, the further extension of the

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- (1) Source: Study on the Yugoslav economy in 1974, furnished by the Canadian Delegation
- (2) Source: Financial Times, 16th January, 1975 - Trends in Yugoslav defence expenditure are shown in Table N, at Annex I.

system of self-management could soon lead to the fragmentation of centres of activity and to the dismantling of the decision-taking apparatus. The success of the government-advocated mobilisation of effort is therefore likely to depend on the sense of urgency which the authorities are able to impart and on the self-management agreements which will have to be negotiated at all levels and which will include commitments to work towards the hoped-for economic goals. The reform of the system is, however, far too recent to permit of any valid assessment of its success or otherwise(1).

17. Given its present state of economic development, Yugoslavia is extremely sensitive to economic fluctuations and is more exposed than other countries to the effects of outside economic difficulties. Some of its difficulties can also be attributed to certain structural problems to which the Yugoslav Authorities are striving to find a solution.

## II. STRUCTURAL PROBLEMS

### A. Agriculture

18. Several recent economic studies on the Yugoslav economy(2) point to a certain weakness in agricultural output which, over the past few years, does not appear to have kept up with higher food consumption, the consequence of a better standard of living and of the growth of the tourist trade. It is quite clear that 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 which have, to some extent, had a destabilising effect on economic growth in general (see Table III) since in 1973 agriculture was still contributing 18% to the formation of the social product.

19. This situation may not be wholly divorced from the disproportion between a state-controlled sector enjoying favourable conditions (the large State Farms are concentrated in the fertile plains) and better access to investment, at all events

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(1) Developments in the Yugoslav system of self-management are described at Annex II

(2) In particular: "Courrier des Pays de l'Est".  
Paris - December 1973.

in the past, and the private land-holdings which have hitherto been taxed more heavily and been given few credit facilities, even if allowance is made for the easier conditions introduced in 1971(1). Between 1963 and 1973, the private sector grew less quickly than the socialist sector (Table II). There also seems to be a considerable difference in the level of productivity between the two sectors. Taking the criterion of the social product (in real terms) per worker as an approximate definition, the productivity of private land-holdings in 1971 was barely a fifth of the productivity of the socialist sector(2). Despite statistical uncertainties, it would seem, therefore, that performances in the private sector have been less successful than in the state-controlled sector. In this connection it must be remembered that 90% of all livestock which makes a major contribution to agricultural exports, is to be found on peasant smallholdings.

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- (1) State-controlled sector: 16% of cultivated land, one-third of agricultural social product, 54% of investments. Private land-holdings: 84% of cultivated land, two-thirds of agricultural social product, 46% of investments. 1972 data source: Yugoslav Statistical Yearbooks - 1973 and 1974.
- (2) Sources: Yugoslav Statistical Yearbook (1974) and "Statistical Pocket Book of Yugoslavia" (1974). The year 1971 has been chosen because of the fact that it was a census year and figures are therefore available for the working population on private land-holdings 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 private land-holdings has been over-estimated by including workers engaged only part-time agriculture).

TABLE II

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

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

TABLE III

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

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

Source: Yugoslav Statistical Yearbook - 1974

20. It must nonetheless be remembered that the relative status of private land-holdings and State Farms varies very considerably from one republic to the other: There can therefore be no generalisation. Account must also be taken of Yugoslavia's limited agricultural potential (only one-third of the country is in the plains). Also, as in all other Mediterranean type farming, weather factors play a decisive rôle and fluctuations in output can be largely attributed to them. In this connection, an observer might nonetheless be tempted to assess the development of Yugoslav agriculture precisely in terms of its ability to cope with meteorological hazards, particularly through the extension of irrigation to the extent that this is practical and worth-while.

21. Be that as it may, agricultural imports are tending to rise faster than exports: between 1968 and 1973, the elasticity in imports (in value terms) by comparison with exports was 2.5. 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 thus began to deteriorate in the second half of 1973 and during the first eleven months of 1974 only 46% of imports (\$632 million) were covered by exports (\$293 million)(2). Admittedly this state of affairs is largely due to certain aspects of the present economic situation which are subject to further change; the increase in the value of imports stems partly from the rise in world rates for most agricultural commodities: a case in point is the rise in the price of sugar (Yugoslavia imported 543,000 tons between January 1973 and November 1974), which trebled between the end of 1973 and the end of 1974, reaching an unprecedented peak (4.6 times the end-1973 price) in November(3). Moreover, the European Communities' restrictions on beef had a direct impact on Yugoslav exports, which include a substantial proportion of beef products. The Common Market meat policy cannot fail, in the long-term, to influence the growth and make-up of Yugoslav agricultural production.

22. The satisfactory 1974 harvests, particularly of wheat and sugarbeet should have a favourable effect on the agricultural trade balance in 1975. If, however, the cost of imported foodstuffs continues to rise and, inevitably, to influence domestic prices, there is reason to believe that the Yugoslav leadership will be prompted to speed up the modernisation of agriculture which has already been set in motion under the provisions of the Green Plan, adopted in June 1973.

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- (1) Sources: Yugoslav Statistical Yearbook and Indeks  
(2) Source: Indeks - January 1975  
(3) Le Mond: 24th December, 1974

23. 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 for certain products, to be allocated exclusively to investments designed to increase production. Special customs tariffs (reductions of 15 to 5%) will be allowed on imports of agricultural capital equipment.

B. Industrial growth

24. Yugoslavia, like many other countries which are attempting to speed up their development, has concentrated on a number of processed products derived primarily from the light engineering, electrical construction and transport industries. There is a possibility, however, that "up-stream" sectors, particularly those concerned with mining and the initial processing of metals, have not made sufficient headway, which means that heavy reliance has had to be placed on outside sources. A high and identical rate of growth in every branch of industry is, of course, neither possible nor advisable. Nonetheless, with hindsight, and given the recent rise in world prices for most basic commodities, it may be wondered whether the relatively slow 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. In this context, 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 sectors which, according to the Plan, will account for 8.6% of the social product of industry in 1975, as compared with 7.5% in 1970. (In 1973, these two sectors accounted for 7.9%).

25. Some difficulty may also have been encountered in the mechanical engineering industry, and particularly in the output 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 1).

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

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26. Recent trends in industrial production nonetheless reflects the importance attached to the output of non-ferrous metals, which grew at an annual rate of 11.5% between 1971 and 1973, and by 9% during the first 11 months of 1974, as compared with 5% between 1963 and 1971(1). Yugoslavia thus, appears to be building up this sector in which it has sizeable natural resources (chromium, nickel, copper, zinc, lead and bauxite). There has also been a significant increase in iron and steel production, which rose by 10% between January and November 1974(1).

27. Attention should also be drawn to certain Yugoslav studies(2) according to which 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 and also to shortfalls in the manufacture of other items, such as spare parts. It should be noted in this connection that in the processing industries as a whole, including mechanical engineering, only 60-70% of production capacity was used in 1972 and 1973(3). Despite the weakness of domestic demand during these two years, this level is highly satisfactory. It is perhaps an indication that optimum allocation of resources within and among sectors was not being achieved. Foreign aid could make a valuable contribution to greater rationalisation in industrial development.

28. By 31st January, 1974, 97 contracts creating "joint ventures" had been signed, although representing an inflow of only \$145 million(4). This last figure is extremely small and is equal to only 10% of fixed investments in industry in 1972(5)

(1) Sources: Yugoslav Statistical Yearbook (1974) and Indeks - January 1975

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

(3) Source: OECD - Yugoslavia - 1974.

(4) 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%.

(5) A recent source ("Le Monde" - 27th January, 1975) however indicates a forthcoming agreement with an American company, Dow Chemical, for the construction and operation of a large petrochemical combine at Rijeka. This investment is understood to involve several hundred million dollars and, provided that the United States contribution is substantial, could raise the level of foreign investments in Yugoslavia quite considerably.

Almost all of these agreements were with Western companies and only two involved Eastern partners (East Germany and Czechoslovakia)(1). A little over a third of these investments are in transport equipment, 16% in the chemical industry and 8% in iron and steel. Foreign investments have had little impact on regional development, being directed primarily towards the developed areas (Slovenia, Croatia and Serbia). Most of Yugoslavia's foreign partners have opted to settle in these three areas, particularly since they offered a greater pool of skilled workers.

C. Regional inequalities

29. Although the Yugoslav leadership has been striving 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 to any significant extent between 1966 and 1973 (see Table IV below). Furthermore, the average wealth gap, calculated on the basis of the per capita national product, between the richest republic (Slovenia) and the poorest (Montenegro) actually became slightly wider over the same period, spreading from 2.7% in 1966 to 3.2% in 1973 (Annex I, Table F).

30. Despite a measure of success and, in particular, an increase in the proportion of fixed investment expenditure allocated to Bosnia and, above all to Kosovo (see Annex I, Table G) it would seem that Yugoslav regional policy has still not managed to eliminate the inequalities between the developed and less-developed regions. These inequalities stem firstly from geographical factors (the mountain ranges hamper communications within the Federation and create a barrier 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). They are also due to a certain predominance of agriculture and the basic industries, particularly mining and metallurgy, which have expanded at a slower rate in the less-developed regions.

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(1) It would appear that a co-operative agreement with a Rumanian enterprise for the construction of railway engines is also on the stocks. The total amount of the proposed investment is reported to be \$100 million but the source of this information does not indicate the rate of Rumanian participation (Source: Financial Times - 15th January, 1975).

31. However, the priority now assigned to the latter sectors should have favourable repercussions on the growth of the less-favoured regions. Moreover, since one of Yugoslavia's aims is to cut down on foreign purchases, there is a likelihood that these areas will come to play a more important rôle in view of the key positions they hold in certain basic sectors.

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

	TOTAL	Bosnia	Montenegro	Croatia	Macedonia	Slovenia	Serbia (including 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".

III. FOREIGN TRADE AND THE BALANCE OF PAYMENTS

A. Foreign trade

(a) Quantitative trends

32. The fall-off in Yugoslav economic growth in 1973 had no effect on foreign trade, the volume of which increased during that year. Exports (2.9 milliard) went up by 27% (as against 24% in 1972 and 8% in 1971) and made it possible to offset in some measure the consequences of the low pressure of domestic demand(1). On the other hand, imports (4.5 milliard) went up even more rapidly (+40%) thereby worsening the adverse trade balance.

33. In 1974, trade developed even more unevenly: imports (5.5 milliard, + 67%) rose twice as fast as exports (3.8 milliard, + 33%)(2). Consequently the trade deficit has

(1) The OECD economic survey of Yugoslavia for 1974 states that exports were able to absorb up to 40% of the increase in production

(2) Sources: BIS No. 29 - 11th February, 1975 and study on the Yugoslav economy in 1974 submitted by the Canadian Delegation.

become larger: in 1974, it reached \$3.7 milliard, which is more than twice (+ 130%) the 1973 figure (\$1.6 milliard). This means that imports were only 50% covered as against 64% in 1973. Moreover, there has been a bigger relative rise in the unit value of imports compared with that of exports (+47% and +32% respectively), which reveals a deterioration in the terms of trade(1).

34. Yugoslavia is certainly hard hit by world-wide inflation. The main reason for the sharp upswing in the value of imports is the almost universal rise in the cost of raw materials and semi-finished products which, in 1973, accounted for 45% of all purchases, as well as in that of agricultural products. The rise in imports of goods of this type in 1974 (imports of raw materials went up by 45% in 1973 and imports of semi-finished goods by 28%, while the corresponding figures for the first eleven months of 1974 are 108% and 68% respectively)(2), probably helped by the liberalisation measures taken in 1973(3) seems to be the result both of the continuance of price rises and of the economic pick-up in 1974. The rise in imports of capital equipment (+ 39% in 1973 and + 37% during the first eleven months of 1974), stems largely from a desire to promote national industrial development, but it may also reflect the inadequacy of domestic output of machinery for industrial plant.

35. In a context such as this, the cost of energy is far from negligible. In 1973, Yugoslavia imported 8.3 million tons of crude oil (70% of national consumption), 1.987 million tons of coal and 482,000 tons of coke. The main suppliers of the last two fuels are the Soviet Union and Poland, whose prices have in all probability been brought into line with world rates.

36. It may be estimated that the rise in crude oil prices entailed an additional outlay of \$490 million in the first eleven months of 1974(4). In spite of a decrease in volume

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- (1) Sources: BIS No. 29 - 11th February, 1975 and study on the Yugoslav economy in 1974 submitted by the Canadian Delegation
  - (2) Source: Indeks (excluding mineral fuels)
  - (3) The proportion of imports on which restrictions have been lifted rose from 28% to 52% of the value of purchases in 1972. In addition, the rule whereby an enterprise was authorized to import only on the basis of its export performance was abolished on 1st January, 1974
  - (4) Figures based on data given in Indeks (August 1973 and January 1975). The Canadian Delegation's document reports an extra expenditure of some \$600 million for the whole of 1974, which would represent about 30% of the increase in the trade deficit.

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of 11% - on the face of it a surprising development at a time of economic recovery - the value of oil imports during the first eleven months of 1974 was \$621 million, or 9% of all foreign purchases, compared with \$172 million (i.e. 4% of imports) for the same period in 1973(1). Since part of the purchases (27% in 1973) were made against the country's clearing account with the Soviet Union, the increase in prices will not be matched by an equivalent outflow of foreign exchange. However, since the Russians charge Yugoslavia world prices, the latter, in order to obtain the oil, will have to find additional resources by stepping up deliveries of other commodities. Nevertheless, the agreement, the exact details of which are not yet known, signed recently with Hungary and Czechoslovakia for the construction of the Adriatic oil pipeline, which is expected to provide each of Yugoslavia's partners with 5 million tons of oil a year after 1979 or 1980, will in the medium term help to offset the increased cost of oil thanks to invisible earnings in the form of movement fees.

37. At the same time, there are plans to double the existing refining capacity and reach a level of 23 million tons in 1978. The intention is probably to export some of the additional output. In this connection, it is worth noting that the bulk (80%) of the oil by-products from the Kopar refinery are to be marketed abroad. This plant, with a yearly output of 8 million tons, is expected to come into operation in 1977 and to be paid for in part by Arab capital from Libya and Kuwait(2).

38. Because of the size of the trade deficit, the Government was obliged to revert, in July 1974, to what are in principle, temporary measures designed to curb imports(3). However, any further cutback on imports affecting capital goods and raw materials might well have an adverse effect on growth and the employment situation. At all events, the Government appears determined to continue its major investment drive, particularly in the energy, raw materials and agricultural fields.

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(1) Source: Indeks, January 1975

(2) Sources: "Le Courrier des Pays de l'Est". Paris - October 1974

(3) For a number of articles, this entails the introduction of import licences and a reduction (17% for consumer goods and 10% for raw materials and semi-finished goods) in currency allocations for the second half of 1974.

The implementation of this investment programme further restricts the freedom of the authorities to curb purchases abroad and it seems that they are relying mainly on voluntary restrictions on imports, freely agreed to through "self-management agreements" concluded between the producers, the consumers, the exporters and the importers. Furthermore, on 29th October 1974, the exchange rate of the dinar was adjusted, with the result that it was devalued by about 7% in relation to the other main currencies. (The new rate was fixed at 17.2 dinars to the dollar, i.e. approximately what it was before the dinar/dollar parity change of July 1973(1)). At the same time, there will be a big effort to boost exports, mainly through the granting of export credits, in 1975.

39. Yugoslav exports, 44% of which were raw materials and semi-finished products in 1973, have also benefited from the increased prices for these articles, and this no doubt accounts for much of their sharp growth in value terms. However, it should be noted that exports of semi-finished products are expanding as fast as imports of the same type (sales in this category increased by 33% in 1973 and by 67% during the first 11 months of 1974, as against 28% and 68% respectively for imports)(2). Since the price rises probably had the same effect on exports as on imports, the real increase was comparable. Metals provided the most convincing results with Yugoslav sales covering 85% of purchases in 1973, as against 72% in 1972 and 40% in 1971. This is a positive trend worth emphasising, which illustrates in particular the recent stepping-up of non-ferrous metal production.

40. In 1973, 56% (\$1.590 milliard) of Yugoslavia's exports went to the OECD countries. Consequently, the expansion of Yugoslav exports is bound up in large measure with the Western economic situation and could be affected by a recession, all the more so, ~~as Yugoslav sales to these countries~~ seem to be comparatively vulnerable to economic ups and downs(3).

- (1) Table M at Annex I shows changes in the parity of the dinar in relation to the dollar
- (2) Sources: Indeks - January 1975 and Yugoslav Statistical Yearbook for 1974
- (3) Certain estimates made by the 6-member EEC indicated that the main branches which are not too sensitive to changes in the economic climate were agriculture and foodstuffs, chemicals and rubber, leather and footwear and textiles and clothing. Goods in these categories accounted for only 40% of Yugoslavia's exports to OECD countries in 1972. But it has to be borne in mind that estimates of this type, which are difficult to apply generally, tend to be very arbitrary and are almost impossible to confirm.

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The big fall-off in beef imports by the European Community had a direct effect on Yugoslav exports of this commodity which go mainly to the EEC(1) and which dropped in volume by 46% during the first 11 months of 1974. The decision in July to stop all imports from outside the Community made the situation still worse and wiped out most of the advantages of the commercial agreement concluded with the EEC in 1973. This decision probably also helped in 1974 to increase the Yugoslav agricultural trade gap. The Government **also appears to be concerned** about the changes made by the Commission to the system of generalised preferences for 1975, particularly as regards the freezing of certain "cut-offs" which could put a brake on increased sales of Yugoslav industrial commodities in the Community.

(b) Changes in the geographical pattern of trade

41. One of the main changes in the geographical pattern of trade in 1973 was the recovery of trade with the developing countries: exports (\$288 million) and imports (\$568 million) went up by 83% and 84% respectively. Nevertheless, these countries still accounted for only a small proportion of Yugoslavia's foreign trade (see Table J at Annex I). The OECD group of countries continued to be Yugoslavia's biggest supplier (\$2.8 milliard) and biggest customer (\$1.6 milliard) in spite of a small drop in this group's relative share resulting from the increase in the share of the Third World. There was no change in the country's degree of dependence on Eastern Europe (Yugoslav imports amounted to \$1,090 million) while the rate of increase in exports to these countries (\$915 million) was slower than that of total exports (+16.5% compared with +27.5%)(2).

42. The figures for the first ten months of 1974 show a small relative increase in Yugoslav exports to the EEC countries, which rose in value by only 8% (from \$829 million to \$893 million), compared with 28% for the whole of 1973. Sales to Italy (Yugoslavia's leading customer in 1973) remained at the same level and those to the United Kingdom actually dropped sharply (-14%). In real terms, then, there was a drop in Yugoslav exports to the EEC while, at the same time, imports went up by 58% (\$2.43 milliard as against \$1.54 milliard for the first 10 months of 1973). Yugoslavia

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- (1) In 1972, the EEC took 75% of Yugoslav beef exports which amounted to \$92.5 million. These sales accounted for 29% of Yugoslavia's agricultural exports
- (2) Source: Direction of trade - I.M.F.

therefore seems to be having as much difficulty as ever in balancing its trade with Western European markets (in 1973, the deficit with the EEC accounted for 53% of the total deficit and was still 50% for the period January-October 1974, in spite of the rise in the cost of energy and other raw materials imported from the developing countries. Attention should be drawn, however, to the sharp rise in Yugoslav exports to the United States (up by 43% to \$259 million between January and October 1974) which follows the big increase (+ 55%) already noted in 1973. Yugoslav imports from the United States (\$320 million) doubled during the same period(1)(2).

43. The growth in trade with the developing countries noted in 1973 continued in 1974. Without rising as rapidly as in 1973, Yugoslav exports over the first 10 months of 1974 (\$335 million) nevertheless went up by 52%; imports (\$988 million) rose far more sharply (+ 130%)(3), but this was largely due to the higher cost of oil. There are indications that trade with the developing countries will continue to grow over the next few years. Recently several major contracts have been concluded, notably with Brazil (\$100 million for the supply of railway equipment) and some of the oil-producing countries. Of special interest is the agreement signed on 14th June, 1974 with Iraq for a period of 5 years, whereby Yugoslavia is to take part in development projects in this country worth between \$2.7 and 3 milliard in return for oil (Yugoslavia imported 1.5 million tons from Iraq in 1974 and is expected to buy 5 million tons in 1975)(4). There was already a big rise in 1974 in Yugoslav deliveries to certain oil states particularly Iraq (\$19 million) (+ 282%) and Libya (\$41 million) (+ 117%)(5).

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(1) Source: Indeks - December 1974

(2) The study on the Yugoslav economy sent in by the Canadian Delegation shows that for 1974 as a whole Yugoslav exports to the developed market economy countries rose by 11% and imports from these countries by 62%. These figures are slightly higher than those for trade with the EEC as a result of the sharper growth of trade with the United States and also with Japan and certain non-EEC European Countries (Sweden)

(3) Source: Economic Review - December 1974. According to the study on the Yugoslav economy provided by the Canadian Delegation the rise in exports was 54% and in imports 113% for the whole of 1974

(4) Sources: Middle East Economic Survey (27th September, 1974 and 26th December, 1974). It is probable, however, that part of the Yugoslav participation will consist of exports of services which do not, therefore, directly enter into the trade balance but whose positive effect will be felt on the balance of payments on current account.

(5) Figures for the first 10 months of the year - Source: Indeks - December 1974.

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44. At the same time, there was a sharp upswing in trade with the East European countries between January and October 1974. Not only was the growth rate for imports (\$1.39 milliard) almost the same as the overall growth rate (69% as against 74%) but the growth of exports (\$1.13 milliard) was far more rapid than that of overall exports (59% as against 37%). In the first 10 months of the year, the Soviet Union thus became Yugoslavia's chief customer, in place of Italy which held this position in 1973. As a supplier, however, the Soviet Union is only in third place being well behind Italy and even more behind the Federal Republic of Germany. Since imports from Eastern Europe increased only at about the same rate as total imports, this area's share as a supplier of Yugoslavia, naturally dropped slightly in 1974 (in favour of the developing countries), but the more dominant position of the European Communist countries as customers was confirmed, and they even provided a larger market for Yugoslav products than the EEC (see Table J at Annex I).

45. In 1974, Yugoslavia also continued to build up its commercial ties with China; during the first 10 months exports to China (in the iron and steel, non-ferrous metals and ship-building spheres) went up by 187%. This put China on a par with Rumania as Yugoslavia's eighth customer, ahead of Austria, France and the United Kingdom, and made it the recipient of 21% of all Yugoslav sales to Asian and African countries(1)(2). Although they have risen by 152%, deliveries by China (agricultural produce and consumer goods) remain much lower (\$25 million as against \$101 million for Yugoslav exports) with the result that Yugoslavia has a large trade surplus.

46. Further proof of the closer trade links is the participation of Yugoslav observers in a larger number of COMECON Committees. Also, in April, a general agreement on financial co-operation was signed with the COMECON Investment Bank. This is the first instance of an agreement between this Bank and a non-member country. Yugoslavia is thus represented both in the OECD and in COMECON - a further illustration of the country's special position mid-way between the Western and Communist worlds.

47. The rise in Yugoslav exports to COMECON, which was almost as sharp as that of imports, is proof of a more balanced development of Belgrade's trade with this area, whereas the increase in the volume of trade with the West is attributable

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(1) Figures for the first 10 months of the year - Source: Indeks - December 1974

(2) Source: Indeks - December 1974

above all to the rise in imports(1). By boosting its exports to Eastern Europe which, in the present economic situation may appear to be an attractive market, Yugoslavia may have to rely more on this area for imports, and especially for energy and basic commodities, which are traditional exports of several East European countries. In this connection, attention should be drawn to the agreement concluded in March 1974 for the delivery of Soviet natural gas during the 1976-1980 Five-Year-Plan and to the possibility of extending to Yugoslavia the gas pipeline which it is planned to lay from the Orenburg deposits. In return, Yugoslavia could step up its sales of metals, particularly bauxite and of capital and consumer goods which in 1972 accounted for 46% of its exports to Eastern Europe(2). Exports to Hungary (+ 84%) and to Rumania and Czechoslovakia (+ 69%) rose most during the first 10 months of 1974(3). In addition to the advantages offered by their proximity, these countries are probably less exacting markets than the Western industrialised countries and could provide valuable outlets for Yugoslav goods.

48. One way of boosting Yugoslav sales to Eastern Europe would be to apply trade arrangements based on convertible currency with certain countries(4). This would get round the constraints of the bilateral clearing arrangements; however it is highly unlikely that Yugoslavia will amass large and continuing surpluses with the East European countries, so that any sustained increase in exports will probably have to go hand in hand with a similar rise in imports. Furthermore, most of Yugoslavia's trade with this area (45% of exports and imports during the first ten months of 1974) is carried on with the Soviet Union, which still applies the clearing system.

49. There are, however, factors which put a brake on any major development of Yugoslav purchases from the COMECON countries. In particular, these countries cannot really replace the non-Communist countries when it comes to supplying Yugoslavia with certain basic commodities, such as chemicals and, above all,

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- (1) During the period 1965-1973, the elasticity of Yugoslav imports from the OECD, by comparison with imports from the East, was 1.7 as against only 1.2 for exports
- (2) Source: OECD, Foreign Trade Statistics, Series C
- (3) Source: Indeks - December 1974
- (4) This is the case for dealings with Rumania, Hungary, Poland and Bulgaria. (Source: Study on the Yugoslav economy submitted by the Canadian Delegation). Between January and October 1974, these four countries accounted for 31% of Yugoslavia's exports to Eastern Europe and for 27% of its imports.

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the capital goods for which there is a growing need. In 1972 the last year for which sufficiently detailed statistics are available, the OECD countries accounted for 80% of Yugoslav imports of machinery and transport equipment(1). Also, in addition to their concern not to become too dependent economically, it is unlikely that the Yugoslavs will allow their trade rapprochement with the COMECON countries to go too far since to do so might compromise their policy of national independence and non-alignment at the political level. In any case, it is still difficult to predict how commercial ties with the East European countries will develop in the short and medium term. The answer will largely depend on the extent to which West European and North American markets provide outlets for Yugoslav products and on balance of payments trends.

B. The balance of payments

50. Yugoslav economic policy-makers have consistently striven, nearly always without success, to balance external receipts and payments. This has now become more necessary than ever at a time when there is inflation and the risk of an economic recession in several Western countries which traditionally provide funds.

(a) Balance on current account

51. The years 1972 and 1973 was a big improvement in invisible earnings, mainly from tourism and remittances from Yugoslavs working abroad, which brought in \$930 million in 1971 and \$1.875 milliard in 1973, i.e. a net inflow which doubled in the space of two years. These earnings made it possible to achieve for the first time a large surplus on current account (\$419 million in 1972 and \$327 million in 1973(2); however because of the unprecedented rise in the trade deficit in 1974, these earnings were no longer sufficient and a deficit on current account of around \$1 milliard is expected for that year. It is possible, moreover, that receipts from tourism and remittances from abroad will not exceed the level they have now reached because of the economic difficulties in Western Europe.

52. The Yugoslav tourist industry has come to rely essentially on mass tourism which, of course, is subject in some measure to the ups and down of the economic situation in the

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- (1) The incomplete figures available for the period January - March 1974 (Source: OECD, Foreign Trade Statistics, Series B) show that this percentage remained the same
- (2) Source: OECD Economic Surveys Yugoslavia 1974

countries from which the visitors come. The number of foreign visitors during the first ten months of 1974 dropped by 11% (from 5.93 million to 5.25 million) compared with 1973, after having been 20% higher that year than in 1972(1). The drop in the number of nights spent in hotels was less pronounced (-7%) because the visitors stayed longer(2). All in all, proceeds from tourism apparently rose by 11% in 1974 to some \$700 million compared with \$630 million in 1973 and \$460 million in 1972. This result has, however, to be seen in the light of the inflation in Yugoslavia, and particularly the rise in the cost of hotel services (23% between December 1973 and December 1974)(3). There has also been a big rise in the number of nights spent by visitors from certain East European countries (mainly Czechoslovakia) but it seems unlikely that nationals of these countries, at least until now, will have used convertible currency, so the proportion of convertible receipts to total Yugoslav earnings will have been correspondingly reduced.

53. Over the last few years, the main source of invisible earnings has been remittances from Yugoslav workers abroad, which amounted to \$1.4 milliard in 1973, an increase of 44% over the 1972 figures. However, the decision by Germany, and then by Austria and Switzerland, to accept no more immigrants for the time being means that the ceiling was reached in 1974 as the great majority of Yugoslavs leaving home went to these three countries. Immigrant workers have, moreover, been the first to feel the effects of economic difficulties, particularly in the motor industry, in most of the West European countries. So far, however, the move homewards has been comparatively small (50,000 or about 5% of the Yugoslavs working abroad) with a number of unemployed workers probably preferring to remain in the host country and draw unemployment benefit, although they may now be making smaller remittances or, indeed, sending no money home at all.

54. In spite of these negative factors, remittances from emigrant workers were apparently in the region of \$1.6 milliard in 1974, an 18% improvement over 1973. One reason for this increase may be the size of the savings deposited directly in the host country by Yugoslav workers. According to certain estimates(4), about \$3.2 milliard was held in German banks at the end of 1974 and some of this money may well have been taken to Yugoslavia, mainly by persons going home for good.

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(1) Source: Indeks - January 1975

(2) Idem - During the first ten months of 1974 the average number of nights spent by foreign tourists in Yugoslavia was 5.56 as against 5.21 for the whole of 1973 and 5.02 in 1972

(3) Source: Indeks - January 1975

(4) Cf. RFE - 12th December, 1974 - No. 2146.

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The Yugoslav Authorities are aware of the potential advantages for the balance of payments of these deposits abroad and this probably goes a long way towards explaining the recent liberalisation of the regulations governing foreign currency deposits in Yugoslav banks(1). For the time being, therefore, the amounts sent home by emigrant workers may continue to increase but in the long run this source of invisible earnings will dry up once all its elements have been absorbed, unless of course, there is an economic pick-up in Western Europe.

55. There has been an increase in receipts from the export of services as a result of an increasing number of engineering contracts concluded with the developing countries. During the first half of 1974, it is reported that Yugoslav concerns did work valued at around \$100 million in 29 of these countries, while the value of contracts signed during the same period amounted to \$265 million(2). Other major contracts are understood to have been signed, including one for the installation of two military airfields in Kuwait at an estimated cost of \$230 million(3). Co-operation with Kuwait has been expanded through the formation in that country in January 1975, of a joint engineering enterprise with a capital of \$6.9 million, 40% of which is held by Yugoslavia. The oil states would seem a promising field for Yugoslav engineering. In addition to Kuwait, mention should be made of Libya and Iraq. Together with the transport sector, which has a traditional surplus (net income from transport was \$234 million in 1973) this is an area which offers favourable prospects for the Yugoslav balance of payments.

(b) Capital account

56. Yugoslavia has traditionally relied on capital transactions to provide funds for its investment drive, (particularly in the basic sectors) which is hampered by the lack of domestic capital and, where necessary, to make good the deficit on current account. Indeed, it is difficult to see how the country can promote its development without financial assistance from abroad: the inflow of long-term funds (loans to the Government, plus suppliers' credits, plus the balance of financial credits) totalled \$1,100 million in 1972 (which represented 75% of the gross fixed investments in industry for that year) and

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- (1) Source: Cf. RFE - 12th December 1974, - No. 2146  
(2) Economic review 0 December 1974  
(3) Source: "Le Courrier des Pays de l'Est" - September 1974.

\$1,180 million in 1973(1). These figures should be compared with those for direct foreign investments which amounted at 31st January, 1974 to only \$145 million.

57. The Western countries contribute 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, or 23%, came from East European countries(2). No detailed statistics are available on the origin of suppliers' credits(3). but the breakdown is probably the same. Up to 1974 at least, it appears that the \$540 million granted by the Soviet Union in November 1972 had hardly been drawn.

58. Yugoslavia gets extensive aid from the World Bank; at 30th June, 1974 the combined total of the 28 loans granted by this body was \$879 million, which makes Yugoslavia the eighth largest recipient of credits from this source, out of 112 countries((4). In addition, the IFC has, since 1970, assisted with loans (\$52 million) and the purchase of shares (\$14 million)(5).

59. In 1971 and 1972, Yugoslav enterprises did not have recourse to short-term credits, on which they had extensively relied in the past. In 1968, 1969 and 1970, Yugoslavia received \$418 million in net short-term credits. At the same time, however, the National Bank receives financial credits, probably short-term, the net amount of which in 1972 was \$67 million. This is another way of paying for Yugoslav imports. On the other hand, there has been a sharp decline in the granting by Yugoslavia of loans of this type, which were export credits. (After reaching \$162 million in 1970, the net export credits granted by Yugoslavia fell to \$70 million in 1971 and \$27 million in 1972).

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- (1) Source: IMF - Balance of payments Yearbook (September 1974)  
for the year 1972  
for the year 1973: tentative estimates.  
(The data has been converted into dollars at current rates from the figures in SDR supplied by the IMF)
- (2) Source: IMF - Balance of Payments Yearbook
- (3) The IMF statistics give a breakdown only in net terms. 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 against \$237 million from OECD member countries
- (4) Source: 1974 Annual Report of the World Bank
- (5) Total figures as at 30th June, 1974 -  
Source: IFC - 1974 Annual Report.

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60. The IMF forecasts an inflow of some \$1,300 million in the form of long-term capital in 1974. It appears, therefore, that the countries which traditionally provide funds are continuing to do so generously. In this connection, mention should be made of the granting by the FRG of a credit of DM. 700 million in four annual instalments, together with a loan of \$176 million from the US Export-Import Bank to cover part of the cost of building a nuclear power station (Westinghouse, acting as project manager; and a syndicate of 37 European banks are expected to finance nearly all the rest of the cost of the project, which is estimated at \$518 million)(1). Moreover, the World Bank has already granted for the financial year 1974-1975 three large credits totalling \$203 million. At 1st December, 1974 drawings from the IMF had reached \$102 million, including oil facility drawings of \$48 million. Yugoslavia is also receiving financial assistance from some of the oil states, notably Kuwait and Libya. In addition to granting a \$110 million loan early in 1974, Kuwait is to finance one-third of the cost of the Adriatic pipeline - some \$150 million - and part of the Kopar refinery, the overall cost of which is put at \$300 million. Libya is also expected to help to pay for this refinery and to contribute \$70 million towards the cost of the Adriatic pipeline.

61. The long-term net capital inflows, coupled with the surplus on current account of the past two years, 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 deficit on current account, with the result that reserves - \$1.271 milliard at end-November(2) - have hardly fallen. Nevertheless, the status of the reserves remains superficial, since the size of 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)(3). According to Yugoslav statements, debt servicing at present does not exceed 18-20% of external receipts; however, the leadership is aware of the problem and the Resolution on Economic Policy 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.

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- (1) According to the World Bank, the credits obtained by Yugoslavia on the Euro-currency market totalled \$516.5 million in 1974, as against \$235 million in 1973
- (2) **Source:** International Financial Statistics - January 1975
- (3) **Source:** IMF - Balance of Payments Yearbook - September 1974. Figures given in SDR.

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1110 Brussels.

TABLE A  
AREA AND POPULATION

	Area		1973 Population(1)	
	sq.km	%	Thousands of inhabitants	%
Yugoslavia (total)	255,804	100.0	20,956	100.0
Federal units: Bosnia and Herzegovina	51,129	20.0	3,872	18.5
: Montenegro	13,812	5.4	545	2.6
: Croatia	56,538	22.1	4,469	21.3
: Macedonia	25,713	10.1	1,705	8.1
: Slovenia	20,251	7.9	1,753	8.4
: Serbia	88,361	34.5	8,612	41.1

Source: Statistical Pocket Book of Yugoslavia, 1974

TABLE B  
BREAKDOWN OF THE WORKING POPULATION  
(1971 CENSUS)

	Number (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(2)	8,301	100.0

Source: Statistical Pocket Book of Yugoslavia, 1974

- (1) Mid-year estimates.  
(2) Domestic working population, i.e. excluding Yugoslavs working abroad (589,000 in 1971).

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TABLE C  
EMPLOYMENT

	1971	1972	1973	1974(3)
- Number of employed(1) (in thousands)	4,034	4,210	4,306	4,504
- Registered unemployed(2) (in thousands)	291	315	382	443
- Registered unemployed as a percentage of employed	7.2	7.5	8.9	9.8
- Emigrant workers(4) (in thousands)	589	-	(900)	-

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

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

TABLE E

ORIGIN OF SOCIAL PRODUCT  
(CURRENT PRICES) IN 1973

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

- (1) Excluding Kosovo.
- (2) Provisional figures.

Source: Statistical Yearbook of Yugoslavia.

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TABLE G  
INVESTMENT BY FEDERAL UNIT (%)

	Yugoslavia (Federation)	Bosnia	Montenegro	Croatia	Macedonia	Slovenia	Serbia	(including Kosovo)
1968	100.0	12.1	2.6	21.5	9.2	13.1	41.5	(4.9)
1974 (1)	100.0	15.5	2.5	22.5	5.6	19.6	34.3	(9.1)

(1) Period January-October

Source: Indeks

TABLE H

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

EXPORTS - (%)

IMPORTS - (%)

PRODUCT	Year	1972	1973	1974(1)	COMMODITY	Year	1972	1973	1974(1)
<u>Agriculture and food</u>		<u>14.9</u>	<u>14.0</u>	<u>8.6</u>	<u>Agriculture and food</u>		<u>9.3</u>	<u>11.1</u>	<u>9.2</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>2.0</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)		8.2	9.6	9.9	(except mineral fuels)		10.4	10.3	13.4
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>1.0</u>	<u>Mineral fuels</u>		<u>5.4</u>	<u>7.9</u>	<u>12.7</u>
		0.0	0.0		of which: crude oil		2.5	4.9	9.1
<u>Animal and vegetable fats</u>		<u>0.1</u>	<u>0.1</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>33.4</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>22.1</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 (shipbuilding)		11.0 (7.3)	11.9 (6.2)	-	of which: transport equipment (cars)		7.2 (1.5)	9.6 (1.5)	-
<u>Miscellaneous manufactured goods</u>		<u>15.2</u>	<u>13.4</u>	<u>12.3</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>0.4</u>	<u>Other articles</u>		<u>0.3</u>	<u>0.1</u>	<u>0.2</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>

(1) January - November

Sources: Statistical Year-book of Yugoslavia, 1974 and Index

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

	1968	1969	1970	1971	1972	1973	1974(1)
1. Agriculture, foodstuffs, drink and tobacco (SITC 0 + 1)	+2,265	+2,402	+1,817	+ 382	+1,410	- 831	- 4,714
2. Raw materials, mineral fuels, oils and fats (SITC 2 + 3 + 4)	-2,960	-3,673	-4,956	- 6,467	-5,972	- 9,634	-24,768
3. Chemicals and semi-finished goods (SITC 5 + 6)	-3,651	-4,109	-8,581	-10,039	-7,602	- 9,189	-14,359
4. Non-electrical machinery (SITC 71)	-4,931	-5,503	-6,753	- 8,202	-8,317	-10,481	-17,408
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	+ 2,852

(1) Period January-November.

Sources: Statistical Yearbooks of Yugoslavia and Indeks.

TABLE J  
GEOGRAPHICAL PATTERN OF YUGOSLAV TRADE

	EXPORTS						IMPORTS					
	1972		1973		1974(1)		1972		1973		1974(1)	
	Value (2)	%	Value (2)	%	Value (2)	%	Value (2)	%	Value (2)	%	Value (2)	%
- OECD	1,272	56.9	1,590	55.7	(1,500)	(48.3)	2,112	65.4	2,825	62.6	(3,788)	(60.9)
including: USA	150	6.7	232	8.1	259	8.3	198	6.1	187	4.1	320	5.1
" : EEC(3)	808	36.1	1,022	35.8	893	28.7	1,423	44.1	1,908	42.3	2,435	39.2
" : Italy	308	13.8	466	16.3	378	12.2	400	12.4	531	11.8	720	11.6
" : Germany	264	11.8	320	11.2	306	9.8	604	18.7	856	19.0	1,086	17.5
- Eastern Europe(4)	785	35.1	915	32.1	1,135	36.5	792	24.5	1,090	24.1	1,391	22.4
including: Soviet Union	329	14.7	409	14.3	514	16.5	283	8.8	407	9.0	622	10.0
- Non-Communist developing countries	157	7.0	288	10.1	335	10.8	309	9.6	568	12.6	988	15.9
- Other countries	23	1.0	60	2.1	-	-	15	0.5	30	0.7	-	-
including China	15	0.7	48	1.7	101	3.2	3	0.1	15	0.3	25	0.4
- Total	2,237	100.0	2,853	100.0	3,107	-	3,228	100.0	4,513	100.0	6,217	-

(1) January-October only

(2) Millions of dollars.

(3) Germany, Belgium, Denmark, France, Italy, Ireland, Netherlands, United Kingdom.

(4) Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Rumania, Soviet Union.

Sources: for 1972 and 1973: Direction of Trade (IMF)

for 1974 (January-October): Indeks and Economic Review (December 1974)

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.

TABLE K

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(3)
Electricity	2.7	6.5	12	5	111
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	10
Non-ferrous metals	3.4	4.0	11	12	9
Miscellaneous minerals	2.9	2.2	1	5	11
Mechanical engineering	19.1	17.5	3	8	11
Shipbuilding	1.6	1.6	25	- 2	- 4
Electrical industry	6.3	4.9	9	7	17
Chemical industry	5.8	7.3	13	9	15
Building materials	4.2	4.6	9	5	11
Wood industry	8.8	7.4	8	2	15
Paper industry	1.9	1.9	10	7	10
Textile industry	16.3	12.4	10	6	7
Leather industry	3.5	2.8	11	2	0
Rubber industry	1.3	1.0	11	7	8
Foodstuffs industry	8.6	9.7	7	6	7
Other industries	5.1	6.5	-	-	-
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>+ 8</b>	<b>+ 6</b>	<b>+10</b>

Sources: Statistical Yearbook of Yugoslavia, 1974 and Indeks.

- (1) Yearly average
- (2) Current prices
- (3) January-November 1974/January-November 1973.

TABLE L  
NATIONAL PRODUCT - INTERNATIONAL COMPARISONS

	Gross national product in 1972 (milliard \$)	Per capita gross national product 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 M

EXCHANGE RATE OF THE DINAR -  
AVERAGE RATE COMPARED WITH THE US \$

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
	October	17.3 d. = \$1

Source: International financial statistics - IMF December 1974

TABLE N

THE PATTERN OF DEFENCE EXPENDITURE

(Defence Chapter in the Budget of the Central Administration)

	1968	1969	1970	1971	1972	1973	1974	1975
Value in milliards of dinars	6.4	7.0	7.8	8.9	11.7	16.2	19.6	29.1
Rate of growth over previous year	-	+9.4	+11.4	+14.1	+31.5	+38.5	+21.0	+48.5
% of the social product (current 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.

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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 counterproductive 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(1) 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 Basic Organization of Associated Labour (BOAL), 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 be completely autonomous and to have its own accounts.

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(1) The International Staff has no copy of the text, nor any detailed analysis of it.

Although it will be possible for several BOALs to join contractually in associated work organizations (enterprises), their economic dealings will be conducted on the basis of market prices.

10. The salient feature of the internal organization of decision-taking in 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. The system is apparently safeguarded by having elected delegates who are given a strict mandate and are required to abide closely by their instructions or be removed from office before the end of their term.

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.

Main works consulted: "Constitutions et documents politiques", M. Duverger - 1966. "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, 1974). Radio Free Europe research papers.