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ECONOMIC COMMITTEE

# RECENT TRENDS IN THE YUGOSLAV ECONOMY (1973-74)

Note by the Economic Directorate

## SUMMARY AND CONCLUSIONS

Yugoslavia has not yet managed to achieve smooth economic growth. The austerity measures introduced in 1972 and early 1973 succeeded, last year, in curbing the rise in domestic demand - which was one of the objectives - but at the same time they led to a fall-off in the growth rate (industrial production rose by 6% in 1973, the lowest figure since 1967), without easing the inflationary pressures.

2. There has been a further setback in the never-ending fight against inflation; prices rose by an unprecedented 20% in 1973 and the corresponding figure for 1974 could well be 25%. This could be a disastrous trend for a country which is struggling to foster its economic development. It is certain, in any case, to accentuate the existing differences between the developed and less developed republics and this, in turn, could represent a threat to the cohesion of the Yugoslav federal system.

3. There has been no change in the Yugoslav leaders' habit of switching too quickly from austerity measures to measures designed to boost the economy. Yugoslavia still pursues a stop-go policy. At the end of 1973, the government once again embarked on a policy of expansion which led to the economic revival noted during the first half of 1974. These measures were probably premature and may well make the existing tensions worse. Yugoslavia's economic growth, which depends in part on exports, is also likely to be hit in the coming months by the contraction of international trade.

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4. Quite apart from the short-term economic factors, the country's economic difficulties are due to structural imbalances which have still not been corrected. In this connection, it seems that past mistakes are being repeated, but they will have more serious consequences in the present international economic context.

5. The private sector, although it accounts for two-thirds of agricultural output, has been falling behind for a quarter of a century and this situation has an adverse affect on the performance of agriculture. Although the government has become aware of the need to improve the productivity of the private land-holdings, realising as it does that the more dynamic Socialist sector is hampered by the small area controlled (16% of the cultivated land), it remains reluctant for ideological reasons to give direct large-scale aid to private owners and to revise certain constitutional provisions.

6. Industrial growth has, in itself, been a destabilising factor. The development of certain processing industries has not gone hand-in-hand with adequate expansion of the industries producing basic items and intermediate products. It has therefore been necessary to import large quantities of these goods, a particularly serious development in view of the rise in world prices. A further destabilising factor is the weakness of the mechanical engineering branch, which was the main cause of the 1973 trade deficit. Foreign investments have so far done very little to redress the balance. Such investment has been at a very low level (the total foreign contribution to the economy was $145 million at 31st January, 1974 and, in the main, has by-passed the industries with the biggest deficits.

7. The foreign trade figures are a cause for concern: in 1973, the trade deficit was $1.6 milliard, mainly because purchases outstripped sales in trade with the West. This figure has already been reached in the first half of 1974 and illustrates the strains to which the economy is now subject.

8. The big increase in exports to the East European countries recorded during the first half of the year (a rise of 70% compared with the first half of 1973 as against a rise of 53% for all exports), unless it is merely a passing phenomenon, could be the first signs of a change in Yugoslav trade policy, which has hitherto sought to avoid too great a dependence on these countries. Obviously, the Yugoslavs' task is not made easier by a situation in which they are having to pay more for the goods they buy from the West and are finding it more and more difficult to sell their exports, particularly agricultural produce, to the West.

9. In 1973, as in 1972, there were substantial invisible earnings from the tourist trade and remittances from Yugoslavs working abroad. These inflows made it possible not only to offset the trade deficit but also provided a comfortable surplus on current account ($327 million in 1973). Because of the unfavourable economic situation in Western Europe and the restrictions on immigration introduced by most of the host countries, these invisible earnings could well go down in 1974 and no longer offset the trade deficit. Some Yugoslav estimates foresee a deficit of $700 million on current account.

10. This means that the country could become dependent on medium and long-term loans to redress the balance of payments. In view of current economic uncertainties, there is some question whether the Western countries, the traditional providers of funds, will be able to give sufficient help to allow Yugoslavia to absorb a big deficit on current account and the increased cost of servicing the debt (over the last few years much use has been made of long-term capital to promote development), which amounted to 23% of the value of exports in 1972.

11. For the time being, at least, the policy of ever closer association with non-Marxist economies and integration into the pattern of world trade does not appear to have been really called in question. Nonetheless, the success of the Yugoslav experiment, falling as it does mid-way between Communist state planning and neo-liberalism, cannot yet be taken for granted. The country is still heavily dependent on the outside world, whether in the form of economic assistance, medium and long-term loans or remittances from Yugoslav workers abroad. This makes it particularly vulnerable to the shock waves set up by the slackening of economic growth in the West and the worsening of inflationary pressures almost everywhere. Were such a situation to last, there might be a temptation for the Yugoslav leadership to revert to more authoritarian and centralised forms of economic management, or even to succomb to opportunities for more active participation in COMECON.

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## INTRODUCTION

At its meeting on 18th July, 1974(1), the Economic Committee invited the Economic Directorate to prepare a paper on economic trends in Yugoslavia since the publication of its last report in March 1973(2). The present document provides this information and seeks to highlight the main features of recent economic developments (end-1972 to July 1974), structural imbalances, external trade and the balance of payments.

## I. ECONOMIC TRENDS

### A. Austerity measures introduced at end-1972: results and developments in 1973

1. Chronic inflation is undoubtedly one of the most serious economic problems besetting Yugoslavia and it has been getting worse over the last few years (11% in 1970, 15% in 1971, 16% in 1972 and 20% in 1973).

2. 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 badly-planned investments by certain enterprises, whose finances and credits needed to be reorganized and controlled.

3. While the measures intended to remedy the lack of liquid assets seem to have had positive effects on the financial position of a large number of enterprises, the most noticeable result of the stabilisation drive has been a stagnation of production because of a planned relative drop in domestic demand unaccompanied, however, by any let up in the inflationary pressures it was hoped to eradicate.

4. The volume increase in the social product (5% in 1973) falls short of the targets of the 1971-1975 Plan, which provided for an annual growth rate of 7.5%. The growth rate of industrial production, which once seemed so promising, providing as it did the impetus for the Yugoslav economy (+6%), was the lowest since 1967. All this reflects the relative stagnation 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(3). As a result, employment has suffered and emigration has increased(4).

(1) See AC/127-R/435
(2) See AC/127-D/429
(3) This relative fall-off in private consumption is mainly due to the decline in real wages, estimated at 7% during the first half of the year (reference: OECD Economic Surveys, Yugoslavia, April 1974), which was the result of both statutory reductions and monetary erosion.
(4) The estimated increase in the number of departures in 1973 was 30%.

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5. This development did not have the expected effect on inflation: the cost-of-living index reached 20% in 1973 (as against the 15% originally forecast, see Table I). There are at least two reasons for this setback:

- the rise in the State-controlled prices of certain industrial and semi-finished products which had a chain-reaction effect on consumer prices;

- the combined effects of the rise in the cost of imports, which represent one quarter of the national product, and the devaluation of the dinar in February 1973(1). The rise in the unit cost of imports (20% in 1973 as against 6% in 1972) was chiefly due to the increase in the price of raw materials and mineral fuels which account for 30% of Yugoslavia's imports. It was inevitable that such an increase in the space of one year would have an impact on domestic price levels.

The export price index showed an identical rise since Yugoslavia also exports certain basic commodities such as textiles, timber and non-ferrous metals. Although there was no change in the terms of trade, the rise did not counterbalance 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 INDICES

(Percentage of annual increase)

| | 1970 | 1971 | 1972 | 1973 |
|---|---|---|---|---|
| Cost price: agricultural produce | 15.0 | 26.0 | 24.1 | 25.0 |
| Cost price: industrial goods | 9.0 | 15.6 | 11.1 | 12.8 |
| Cost-of-living | 11.0 | 15.3 | 16.4 | 19.5 |
| Unit value of exports | 9.0 | 4.6 | 6.1 | 19.0 |
| Unit value of imports | 8.0 | 3.7 | 5.4 | 20.3 |

Source: OECD Economic Surveys, Yugoslavia, April 1974

(1) The dinar went down with the dollar until 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)

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B. The present situation

6. The government did not give the austerity measures time to work through the economy; it expected a lot too soon. At the end of last year it again embarked on 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 by improving consumer purchasing power. These included the abolition of the stabilisation taxes and a 10% rise for the lowest paid workers.

7. This desire to drop its opposition to expansion reveals the government's concern to avoid undue public discontent at the fall in real earnings and smacks of political opportunism. But for an economy which is a prey to imported inflation, such an attitude could be disastrous. It is likely to be short-lived, however, for measures designed to curb imports of certain products were taken in July. For some years past the economy has been subject to this erratic stop-go treatment which tends to increase the existing imbalances.

8. The effect of the latest measures cannot yet be accurately judged from recent statistics but there are signs of renewed demand: investments during the first half of this year were up 36% by comparison with the 1973 figures while the fall in reserves and the boost in retail sales after the end of 1973 would seem to indicate an increase in private consumption. This recovery has influenced growth; the rate for industrial production reached 10% during the first half of the year.

9. There has been no easing of inflationary pressures, in fact the situation has further deteriorated. Between August 1973 and August 1974, the cost-of-living rose by 24% and some estimates do not exclude a rate approaching 30% for the year as a whole. The increased pressures come not only from the higher cost of energy (the cost of fuels increased overall by 45% during the first five months), but also from the rise in the price of foodstuffs (some items have gone up by the same percentage as fuels).

10. The big increase in the money supply is also alarming. It stems from the balance of payment surpluses recorded in 1972 and 1973, and has reached enormous proportions during the last two years(1); the inflationary effect was not

(1) The rate of increase was 37% in 1973 and 43% in 1972 whereas the forecasts were 15 and 12% respectively. (OECD Economic Surveys, Yugoslavia, April 1974.)

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felt immediately because of a tight credit policy and restrictions designed to remedy the lack of liquid assets, but the lifting of the restrictions releases a new source of inflationary pressure.

11. It seems probable that the measures designed to regulate demand have little impact on inflation. The real causes are much more deep-seated and can be traced to the structural imbalances in the national economy.

## II. STRUCTURAL IMBALANCES

### A. Agriculture lags behind

12. Quantitatively speaking, the biggest problem facing the Yugoslav agricultural sector is the lack of basic commodities and the consequent need to import large quantities: cereals and sugar, which in 1968 represented a fifth of agricultural purchases abroad, accounted for one-third of such purchases in 1973. The rise in world prices for these commodities (more than 200% since 1971) was offset in the trade balance until the first half of 1973 by the accompanying rise in the price of meat, which is Yugoslavia's chief agricultural export. Later, however, these exports were not enough to maintain the balance and for the first half of this year the value of foodstuffs imported was twice that of exports. Domestically, this increase in world prices is reflected in the retail price of certain staples, such as bread, and helps to feed inflation.

13. This situation is largely the result of a disproportion between a Socialist sector enjoying a high level of investment and favourable conditions (the large State farms are concentrated in the rich plains), and the private land-holdings which are subject to a deliberate policy of high taxation and to credit restrictions(1). While the Socialist sector has proved more go-ahead, its contribution is increasingly limited by the small area available to it. The government sets great store by the co-operative agreements with foreign firms as a means not only of obtaining increased yields, thanks to imported technology, but also with an eye to using the inflow of foreign capital to implement projects for the extension of cultivable areas. So far, only one agreement of

(1) Socialist sector: 16% of the cultivated land, one-third of agricultural social product, 54% of investments. Private land-holdings: 84% of the cultivated land, two-thirds of agricultural social product, 46% of investments. 1972 data - source: Statistical pocket book of Yugoslavia - 1973 and 1974

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this type has been concluded - in February 1974 with a United States firm. Consequently, the chief problem is to boost the output of private land-holdings through large-scale aid to private farming, and this the government hesitates to do since it would entail certain constitutional changes(1).

14. Moreover, agricultural producer prices are stimulated with insufficient reference to market realities. The higher prices paid by the purchasing bodies to the private land-holders are the result of the comparatively faster rise in livestock prices which have led to greater concentration on stock farming. So long as world prices of cereals and other basic commodities remained low, such a stimulus was justified by the per capita increase in meat consumption and the export possibilities. But, in the present climate of shortage and higher prices for imports it would be preferable to do more about encouraging grain and beetroot output since the contribution made by the Socialist sector has proved inadequate. The improvement recorded in 1973 for cereals can probably be attributed in the main to the exceptionally favourable weather.

B. Uneven industrial growth

15. The growth of Yugoslav industry has itself been a destabilising factor. Alongside the traditional industries (textiles, clothing, leather and wood), expansion has concentrated on a number of processed goods mainly from light mechanical engineering, electrical engineering and the manufacture of transport equipment, at a time when the development of the upstream sectors, particularly the production and primary processing of metal, was not sufficiently advanced.

16. An even more serious consequence of structural imbalance is the weakness of the mechanical engineering sector, particularly the inadequate output of industrial machinery. The mechanical engineering sector, which is fairly highly integrated through its purchases, has not been able to expand at a satisfactory rate because of bottlenecks created by poor performance in the supply sectors, particularly iron and steel. Consequently, although Yugoslavia's industrial take-off gave rise to increased demand for the products of this particular branch, the effects of this demand could not be adequately transmitted throughout the economy, with a resultant increase in imports(2).

(1) The law which limits private holdings to 10 hectares and therefore prevents economies of scale would have to be altered

(2) The share of imports in capital equipment investment went from 34% in 1964 to 42% in 1972 (OECD Economic Surveys, Yugoslavia, April 1974)

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17. The purchase of intermediate products and non-electrical machinery had a big impact on the trade deficit in 1973 (see Table 2). Lastly, because of these imports, what should have given a fillip to the growth of Yugoslav industry has actually had a negative effect on the balance of payments.

TABLE 2

TRADE SURPLUS (+) OR DEFICIT (-) BY COMMODITY GROUPS IN 1973

(millions of dinars)

| | | |
|---|---|---|
| 1. | Agriculture, foodstuffs, drink and tobacco (SITC 0+1) | - 831 |
| 2. | Raw materials, mineral fuels, oils and fats (SITC 2+3+4) | - 9,634 |
| 3. | Chemical and semi-finished products (SITC 5+6) | - 9,181 |
| 4. | Non-electrical machinery (SITC 71) | - 10,481 |
| 5. | Eletrical machinery and transport equipment (SITC 72+73) | - 2,054 |
| 6. | Miscellaneous consumer goods (SITC 8) | + 3,406 |

(Source: Statistical pocket book of Yugoslavia, 1974)

18. The development of industrial production between 1971 and 1973 has, however, been encouraging: the output of non-ferrous metals grew at an annual rate of 11.5% (as against only 5% between 1963 and 1971)(1). Yugoslavia finally seems to have started fully exploiting a sector in which it has sizeable natural resources. The iron and steel and the chemical industries also have an annual growth rate which is higher than that of industry as a whole )8% and 11% as against 7% respectively)(1).

19. Shortage of capital probably has something to do with the relative weakness of non-electrical machinery output. It seems likely that, given their expansion, certain capital-intensive industries in the mechanical engineering sector, particularly the transport equipment industry, absorb a fairly large share of available capital. It may well be that the remaining fixed investments are inadequate to cover the development of machinery output and the light metal industries. The latter, with a low capital coefficient, probably receive preferential treatment. However, it would require more detailed statistics than those available to confirm this assumption. In this connection, foreign investment could provide valuable assistance not available at present.

(1) Source: Statistical pocket book of Yugoslavia - 1974

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20. By 31st January, 1974, 97 contracts had been signed, representing an inflow of only 145 million dollars(1). Almost all these agreements were signed with Western firms; only two of them were with Eastern partners (East Germany and Czechoslovakia). Rather over a third of these investments were made in transport equipment, 16% in chemicals and 8% in iron and steel. While it is true that these last two sectors are highly important for the economy, it may be asked what the real effect will be of such a large concentration of capital on the first sector. It might, in fact, be preferable to allocate more capital to the machine-tools industry.

C. Regional inequalities

21. There are still very pronounced economic inequalities between the regions. Apart from a slight increase in Macedonia's share, the contribution to the social product of the less-developed regions (Bosnia, Montenegro, Macedonia and Kosovo) hardly changed between 1966 and 1973 (see Table 3). Furthermore, the wealth gap, calculated on the basis of per capita social product, between the richest republic (Slovenia) and the poorest (Bosnia) actually became wider over the same period (2.6% in 1966 and 2.9% in 1973)(2). It would seem, therefore, that Yugoslav regional policy has still not managed to eliminate the inequalities between the comparatively developed republics and the more backward regions, in which growth has so far been retarded because of the dominant position of agriculture and an industrial structure which is too heavily weighted in favour of the basic industries, particularly metal extraction and production.

22. Be that as it may, however, the priority now given to the latter sectors should mean that what has hitherto been a drawback will become an advantage and lead to an economic take-off for the country's less-developed regions. The industrial production figures for 1973 give grounds for optimism about future prospects: the volume rate of increase recorded in Bosnia and Montenegro (8%) and, above all in Macedonia (11%), was above the national average (6%)(3).

23. But this development drive will have to be backed up more fully by investments. While the less-developed regions contain 36% of the population, "Economic" investments(4) rose only from 27% in 1968 to 31% in 1972(3).

(1) 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%.
(2) Figures based on data for social product and population by republics given in the publication "Indeks"
(3) Source: Statistical pocket book of Yugoslavia, 1974.
(4) By economic investments is meant investments in sectors whose production enters into the social product. They therefore exclude investments in housing, the administration and public services (see OECD Economic Surveys, Yugoslavia, 1974).

24. Although the populations in the less-developed regions have so far more or less put up with the situation, this has been at the cost of a large-scale exodus of young people. Furthermore, it is an established sociological fact that predominantly agricultural communities are better able to cope with a low-level of income, mainly because they are self-supporting. All the same, the strong feeling of resentment created by these inequalities could have a dislocating effect on a Federation which lacks a sound historical basis.

TABLE 3

% CONTRIBUTION OF THE REGIONS TO THE FORMATION OF THE SOCIAL PRODUCT (AT CURRENT PRICES)

| | TOTAL | Bosnia | Montenegro | Croatia | Macedonia | Slovenia | Serbio | (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 | (2.10) |

Source: Indeks

## III. FOREIGN TRADE AND THE BALANCE OF PAYMENTS

### A. Foreign trade

#### (a) Quantitative trends in 1973 and the first half of 1974

25. The slowing down of Yugoslav economic growth has had no effect on foreign trade, the volume of which increased in 1973. Exports went up by 27% (24% in 1972 and 8% in 1971) and made it possible in part to offset the consequences of the low pressure of domestic demand(1). On the other hand, imports also went up even more rapidly (+40%), thereby worsening the foreign trade figures.

26. During the first six months of 1974 the trade continued to develop unevenly, for while exports increased by 53% (quite an accomplishment bearing in mind the rise in world prices), imports rose by 76%(2). Consequently, the trade deficit has become even larger: by the end of June it reached a record level of 1.6 milliard dollars or as much as the total deficit for the previous year.

(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) Source: Indeks, August 1974.



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27. Yugoslavia is certainly hard hit by world-wide inflation. The main reason for the upswing in the value of imports is the almost universal rise in the prices of raw materials and semi-finished products, which in 1973 represented 45% of all purchases(1), as well as of agricultural products. The rise in these imports in 1974(2), probably helped by the liberalisation measures taken in the course of last year(3), would seem to be the result both of the continuance of price rises and of the economic pick-up at the end of 1973. The big increase in imports of capital equipment provides proof of the inadequacy of domestic output and of the determination of overcome this bottleneck.

28. In a context such as this, the cost of energy is far from negligible and in 1973 Yugoslavia obtained from abroad 8.5 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 and it is not yet known whether these countries have brought their prices into line with world prices, although it seems likely that they have.

29. The rise in oil prices entailed an additional outlay of $240 million in the first six months of 1974(4). In spite of a decrease in volume of 30% - on the face of it a surprising development at a time of economic recovery - the share of oil rose to 9% of imports for the first half of the year compared to 5% for the same period in 1973. 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 reflected by an equivalent outflow of foreign exchange. However, the price at which the Soviet Union sells oil to the Communist countries is almost bound to go up and although the percentage increase is not yet known it will probably not be as high as that demanded of the Western countries. But, in order to obtain the oil, Yugoslavia will

(1) Source: Statistical pocket book of Yugoslavia, 1974 (excluding mineral fuels).
(2) The imports of raw materials and semi-finished products went up by 45% and 30% in 1973. For the first half of 1974, the upswing was 115% and 60% respectively (Source: Statistical pocket book of Yugoslavia, 1974 and Indeks 8/74).
(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 which linked an enterprise's import possibilities with its export performance was abolished on 1st January, 1974.
(4) Estimate based on the data given in Indeks.



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have to find additional resources by stepping up deliveries of other products. However, the agreement, exact details of which are not yet known, signed recently with Hungary and Czechoslovakia for the construction of the Adriatic oil pipeline, which it is hoped will provide each of Yugoslavia's partners with 5 million tons of oil a year after 1976, will make it possible to offset in part the increased cost of oil thanks to invisible earnings in the form of movement fees.

30. At the same time, there are plans to double the existing refining capacity and reach a level of 23 million tons in 1978. An increase of this magnitude in domestic consumption over the next four years seems highly unlikely and the intention must be to export some of the additional output. However, the question arises whether the recent trend in oil prices and the economy measures which have been introduced virtually everywhere will not make an expansion based on exports a risky venture, and whether such a large-scale investment will not merely lead to a surfeit of refining capacity.

31. Because of the size of the trade deficit, the government was obliged to revert, last July, to what are in principle temporary measures designed to curb imports(1). However, it will be difficult to cut back on the latter without destroying the momentum of the economic recovery which started late in 1973. The repercussions on the employment situation would be all the more serious as emigrant workers are expected to return.

32. Yugoslav exports, 44% of which are raw materials and semi-finished products(2), have also benefited from the increased prices for these articles and this undoubtedly goes a long way towards explaining their good performance. It is noteworthy, too, that exports of semi-finished products are expanding faster than imports of the same type(3). Since the price rises probably had the same effect on exports as on imports, the real increase was significant. 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 the recent stepping-up of non-ferrous metal production.

(1) 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 six-monthly period.
(2) 1973 - Source: Statistical pocket book of Yugoslavia, 1974.
(3) 35% in 1973 and 80% during the first half of the year for exports, compared with 28% and 60% respectively for imports (Source: Statistical pocket book of Yugoslavia, 1974 and Indeks, August 1974).



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33. In 1973, 56% of Yugoslavia's exports went to the OECD countries. Consequently, any expansion of Yugoslav exports is bound up in large measure with the Western economic situation and could be effected by a recession, all the more so as Yugoslav sales to these countries are comparatively vulnerable to economic ups and downs(1).

34. However, the big fall-off in beef imports by the European Community had a direct effect on Yugoslav exports of this product which go mainly to the EEC(2) and which dropped in volume by 68% during the first half of the year. The decision in July to stop all imports from outside the Community will make the situation worse and wipe out most of the advantages of the commercial agreement concluded with the EEC in 1973. It may also contribute in 1974 to increasing the agricultural trade gap, since, in 1972, beef and sales to the European Community accounted for 29% of all agricultural exports. Yugoslav agricultural policy has, moreover, been based for several years past on build-up of exports of this type.

(b) Changes in the geographical pattern of trade

35. One of the main changes in the geographic pattern of trade in 1973 (see Table 4) was the recovery of trade with the developing countries: exports and imports went up 83% and 82%, although trade with these countries remains at a low level. The OECD continues to be Yugoslavia's biggest supplier and biggest customer, in spite of a small drop resulting from this increase in the share of the Third World. There has been no change in the degree of dependence on Eastern Europe but the rate of increase in sales to these countries was much slower than that of total exports (+ 16.5% compared with 27.5%).

36. The figures for the first half of 1974 show a relative drop in Yugoslav exports to the EEC during this period (19% as against 28% for 1973). On the other hand, imports increased by 70% as against 34% in 1973. Yugoslavia therefore seems to be having as much difficulty as ever in balancing its trade with the Western European markets (in 1973, the deficit with the EEC accounted for 53% of the total deficit).

(1) Certain estimates made by the 6-member EEC led to the conclusion 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 produced by these branches accounted for only 40% of Yugoslavia's exports to the 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.

(2) In 1972, the EEC took 75% of Yugoslav beef exports, which amounted to $92.5 million.

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37. At the same time, there has been an up-swing in trade with the East European countries. Not only has the growth rate for imports been virtually the same as the overall growth rate (77% as against 76%) but there has also been a dramatic increase in exports: 70% compared with 53% for all exports. In the first half of the year the Soviet Union thus became Yugoslavia's chief customer, although it was only just ahead of Italy(1).

TABLE 4

GEOGRAPHICAL PATTERN OF YUGOSLAV FOREIGN TRADE IN 1972 AND 1973

(%)

| | IMPORTS | | EXPORTS | |
|---|---|---|---|---|
| | 1972 | 1973 | 1972 | 1973 |
| OECD(2) | 56.9 | 55.8 | 65.4 | 62.6 |
| - EEC | 36.1 | 35.8 | 44.1 | 42.2 |
| - Italy | 13.8 | 16.3 | 12.4 | 11.8 |
| - Germany | 11.8 | 11.2 | 18.7 | 19.0 |
| Eastern Europe(3) | 35.1 | 32.1 | 24.5 | 24.1 |
| - USSR | 14.7 | 14.3 | 8.8 | 9.0 |
| Non-Communist developing countries | 7.0 | 10.1 | 9.6 | 12.6 |
| Other countries | 1.0 | 2.0 | 0.5 | 0.7 |
| TOTAL | 100.0 | 100.0 | 100.0 | 100.0 |

38. Further proof of the closer trade links is the participation of Yugoslav observers in a larger number of COMECON Committees. Lastly, in April, a general agreement on financial co-operation was signed with the COMECON Investment Bank. This is the first example of an agreement being signed by this bank with a non-member country. Yugoslavia is thus represented both in the OECD and COMECON, a further illustration of the country's ambiguous position midway between the Western and Communist worlds.

(1) Sales to the Soviet Union were worth 4,512 millard dinars and to Italy 4.493 milliard dinars (Source: Indeks, August 1974).
(2) Excluding Portugal.
(3) USSR, Bulgaria, Czechoslavakia, GDR, Hungary, Poland and Rumania. Source: Direction of Trade - IMF - May 1974.

39. The big rise in Yugoslav exports to COMECON, which was almost as rapid 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 above all to the rise in imports(1). By strengthening its trade links with Eastern Europe, Yugoslavia may seek to switch to these countries some of its imports of energy or basic commodities, such as iron or steel, which at present it pays for in foreign exchange. In this connection, reference should be made to the agreement concluded in March 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. At the same time Yugoslavia could step up its sales of metals, particularly bauxite, and capital and consumer goods, which in 1972 accounted for 46% of its exports to Eastern Europe(2). Exports to Hungary (+ 209%) and Rumania (+ 198%) rose most during the first half of the year(3) and these two countries could provide valuable outlets for Yugoslav goods.

40. There are, however, factors which limit the development of trade with COMECON. In the first place, these countries cannot really replace the Western countries when it comes to supplying Yugoslavia with certain basic commodities such as chemicals and, above all, the capital goods for which there is a growing need. In 1972, the OECD countries accounted for 80% of Yugoslav imports of machinery and transport equipment. In this connection, Soviet credits intended for the purchase of equipment have scarcely been drawn: of the $540 million granted by the Russians in November 1972, only $40 million have apparently been drawn. It is, too, unlikely that the Yugoslavs will countenance any dramatic rise in the level of their imports from the Soviet Union so as to avoid becoming too dependent on the Russians economically. Lastly, although encouraging, trade with Hungary and Rumania represents only a small fraction of Belgrade's commercial dealings with Eastern Europe(4). Under the circumstances, it is difficult to say whether these closer trading links with Eastern Europe will last or whether they are simply a passing phenomenon, as was the case in 1971. In any event, the answer will be largely determined by the trend in the balance of payments.

(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, August 1974.
(4) In the first half of the year, these two countries accounted for 17% of Yugoslav exports and 19% of its imports. Most of the trade (42% of exports and 44% of imports) was carried on with the Soviet Union (Source: Indeks, August 1974).



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B. The balance of payments

41. 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 galloping inflation and the risk of an economic recession in several Western countries which traditionally provide funds.

(a) Current balance

42. The years 1972 and 1973 saw a big improvement in invisible earnings 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(1). However, because of the economic difficulties in Western Europe, future contributions from these two sources will probably not exceed the level they have now reached.

43. The Yugoslav tourist industry depends essentially on mass tourism which, of course, is subject to the ups and downs of the economic situation in the countries from which the visitors come. Moreover, inflation in Yugoslavia may cause some of the visitors to stay for shorter periods and others to go to neighbouring countries such as Rumania and Bulgaria where prices are lower. Although reservations by tourists from Federal Germany and the United Kingdom dropped sharply at the beginning of the year, it is possible that the events in the Eastern Mediterranean brought to Yugoslavia some tourists who normally would not have gone there.

44. A drop is also expected in remittances from Yugoslav workers abroad which, in 1973, amounted to $1.4 milliard(1). The decision by Germany, and then by Austria and Switzerland, to accept no more immigrants for the time being means that the ceiling has been reached; the great majority of Yugoslavs leaving home went to these three countries. Immigrant workers will also be the first to feel the effects of economic difficulties, particularly in the motor industry, in most of the Western countries. Some of them may find themselves out of work and the others will probably put money aside for a rainy day and send less home. The statistics for the first four months of 1974 show a relative and steady fall in remittances, which increased in value by comparison with the same period in 1973 by +28% in January and only +6% in April(1).

(1) Source: Statisticki Bilten, May 1974.

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45. The results obtained in 1972 and 1973 were undoubtedly a success; for the first time there was a sizeable credit balance on current account ($419 million in 1972 and $327 million in 1973(1)). Faced with an unprecedented rise in the trade deficit and the likelihood of a stagnation of invisible earnings, however, there is no doubt that 1974 will see a deficit on current account which some Yugoslav sources estimate at $720 million(2).

(b) Capital account

46. Yugoslavia has traditionally relied on capital transactions to make up the chronic deficit on current account. In spite of the surplus obtained in 1972 and 1973 thanks to inflows of invisible earnings, the country continued to lean heavily on outside aid to provide capital for the investment drive, particularly in the basic sectors which were hampered by the lack of domestic capital. Indeed, it is difficult to see how Yugoslavia can promote its development without financial assistance from abroad(3).

47. The net inflow of long-term funds totalled $325 million in 1972 and $380 million in 1973(1). Most of the flow (63% of the gross total in 1972) was accounted for by enterprise credits. The Western countries contribute the lion's share, while the contribution of the East European countries was only 23% of all loans received by the Belgrade Government between 1968 and 1972(4). No detailed statistics are available on the origin of the capital credits but the breakdown is very probably the same, especially as Yugoslav sources have stated that the $540 million granted by the Soviet Union have hardly been drawn.

48. In 1971 and 1972 Yugoslav enterprises did not have recourse to short-term credits on which they had so extensively relied in the past(5). At the same time, however, the National Bank receives financial credits, probably short-term credits, the net amount of which in 1972 was $62 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(6).

(1) Source: OECD Economic Surveys, Yugoslavia 1974.
(2) Source: RFE research paper No. 2094-31/07/1974.
(3) The gross inflow of long-term loans amounted altogether in 1972 to $1,013 milliard or 70% of industrial investments. This figure should be compared with actual foreign investment which amounted at the end of 1973 to only $145 million (Sources: IMF and OECD).
(4) Loans from the East amounted to $214 million out of a total of $925 million (Source: IMF - Balance of payments yearbook).
(5) In 1968, 1969 and 1970, Yugoslavia received net short-term credits worth $418 million.
(6) After rising to $162 million in 1970, the net export credits granted by Yugoslavia fell to $70 million in 1971 and $25 million in 1972 (Source: IMF balance of payments yearbook)

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49. The long-term net capital inflows, added to 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(1). In the context of the balance of payments, the rise should more than offset the deficit on current account which seems likely in 1974. Nevertheless, in the long run, the improvement in the position of the reserves remains superficial, since the increase in the burden of the debt has kept pace with the rise in credits(2).

50. For the time being it appears that the countries which traditionally provide funds will continue to do so. In this connection, mention should be made of the agreement signed in June with the Federal Fepublic of Germany for a loan of DM. 700 million in four annual instalments. Again, the $110 million loan granted early in the year by Kuwait is significant in that it indicates that Yugoslavia may be seeking Arab, and particularly Libyan, capital as part of plans to step up trade with the oil-producing States.

51. It remains to be seen whether, in the present economic situation, Yugoslavia will be able to count for much longer on sufficient financial assistance from the Western world to enable it to absorb a sizeable deficit on current account and an increased debt servicing burden. To avoid finding itself in a position where payments dried up, Belgrade might be tempted to take its rapprochement with the East European countries further. It is worth bearing in mind, for instance, that talks are now being held with the Soviet Union on the subject of a $500 million loan.

(1) Source: UNO, monthly statistical bulletins.
(2) In 1972, the only year for which adequate statistics exist, debt servicing absorbed $524 million, or 52% of the gross long-term capital received (Source: IMF).

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## 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: Stastical 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 | 4,431 |
| - Registered unemployed(2) (in thousands) | 290 | 334 | 399 | 440 |
| - Registered unemployed as a percentage of employed | 7.2 | 7.9 | 9.3 | 9.9 |
| - 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 |
|---|---|---|---|
| 6.1 | 8.8 | 4.5 | 5.3 |

Source: Statistical pocket book of Yugoslavia, 1974

(1) Paid domestic employment
(2) Outstanding applications for employment (at end of the period in question)
(3) January - June
(4) 1971 census; only varying estimates are available for later years
( ) Estimate

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## 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

## TABLE F

### 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.

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

TABLE G

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 (volume) (%) | | |
|---|---|---|---|---|---|
| | | | 1972 | 1973 | 1974(3) |
| Electricity | 2.7 | 6.5 | 12 | 5 | 7 |
| Coal and coke | 3.7 | 2.9 | 0 | 2 | 4 |
| Crude oil and by-products | 1.1 | 2.9 | 1 | 6 | 12 |
| Iron and steel | 3.7 | 3.9 | 8 | 7 | 12 |
| Non-ferrous metals | 3.4 | 4.0 | 11 | 12 | 9 |
| Miscellaneous minerals | 2.9 | 2.2 | 1 | 5 | 14 |
| Mechanical engineering | 19.1 | 17.5 | 3 | 8 | 11 |
| Shipbuilding | 1.6 | 1.6 | 25 | -2 | -17 |
| Electrical industry | 6.3 | 4.9 | 9 | 7 | 14 |
| Chemical industry | 5.8 | 7.3 | 13 | 9 | 15 |
| Building materials | 4.2 | 4.6 | 9 | 5 | 13 |
| Wood industry | 8.8 | 7.4 | 8 | 2 | 14 |
| Paper industry | 1.9 | 1.9 | 10 | 7 | 8 |
| Textile industry | 16.3 | 12.4 | 10 | 6 | 6 |
| Leather industry | 3.5 | 2.8 | 11 | 2 | -3 |
| Rubber industry | 1.3 | 1.0 | 11 | 7 | 7 |
| Foodstuffs industry | 8.6 | 9.7 | 7 | 6 | 11 |
| Other industries | 5.1 | 6.5 | - | - | - |
| TOTAL | 100.0 | 100.0 | +8 | +6 | +10 |

Sources: Statistical pocket book of Yugoslavia, 1974 and Indeks

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



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TABLE H

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 | 15.32 d. = $1 |
| | 4th quarter | 15.44 d. = $1 |
| 1974 | 1st quarter | 15.94 d. = $1 |
| | 2nd quarter | 15.21 d. = $1 |

Source: International financial statistics - IMF September 1974

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

EXPORTS - (%)

| PRODUCT Year | 1972 | 1973 | 1974(1) |
|---|---|---|---|
| Agriculture and food | 14.9 | 14.0 | 9.8 |
| of which: live animals | 4.3 | 1.7 | - |
| of which: meat and meat preparations | 6.7 | 7.1 | - |
| Drink and tobacco | 2.6 | 2.1 | 2.0 |
| Raw materials (except mineral fuels) | 8.2 | 9.6 | 11.0 |
| of which: wood and cork | 3.7 | 5.5 | |
| Mineral fuels | 0.8 | 0.8 | 0.8 |
| Animal fats and vegetables | 3 | 3 | 3 |
| Chemicals | 6.4 | 6.2 | 9.4 |
| Manufactured goods by type | 27.0 | 28.5 | 32.0 |
| of which: textiles | 4.6 | 4.6 | - |
| of which: base metals | 13.7 | 15.6 | - |
| Machinery and transport equipment | 24.4 | 24.7 | 22.9 |
| of which: non-electrical machinery | 5.8 | 4.8 | - |
| of which: electrical machinery | 7.6 | 8.0 | - |
| of which: transport equipment (shipbuilding) | 11.0 (7.3) | 11.9 (6.2) | - - |
| Miscellaneous manufactured goods | 15.2 | 13.4 | 11.4 |
| of which: clothing and footwear | 10.3 | 8.7 | - |
| Other articles | 0.5 | 0.7 | 0.7 |
| TOTAL | 100.0 | 100.0 | 100.0 |

IMPORTS - (%)

| COMMODITY Year | 1972 | 1973 | 1974(1) |
|---|---|---|---|
| Agriculture and food | 9.3 | 11.1 | 12.3 |
| of which: cereals and sugar | 4.0 | 3.6 | - |
| Drink and tobacco | 0.2 | 0.2 | 0.1 |
| Raw materials (except mineral fuels) | 10.4 | 10.8 | 13.6 |
| of which: textile fibres | 4.2 | 4.3 | - |
| of which: leather and pelts | 0.9 | 1.2 | - |
| of which: cores | 1.2 | 1.3 | - |
| Mineral fuels | 5.4 | 7.9 | 12.5 |
| of which: crude oil | 2.5 | 4.9 | 9.0 |
| Animal and vegetable fats | 1.3 | 0.4 | 0.6 |
| Chemicals | 10.8 | 10.0 | 10.1 |
| Manufactured goods by type | 26.1 | 24.0 | 21.8 |
| of which: textiles | 4.3 | 4.0 | - |
| of which: base metals | 13.2 | 11.5 | - |
| Machinery and transport equipment | 31.5 | 31.4 | 25.2 |
| of which: non-electrical machinery | 19.2 | 16.8 | - |
| of which: electrical machinery | 5.1 | 5.0 | - |
| of which: transport equipment (cars) | 7.2 (1.5) | 9.6 (1.5) | - - |
| Miscellaneous manufactured articles | 4.7 | 4.1 | 3.6 |
| Other articles | 0.3 | 0.1 | 0.2 |
| TOTAL | 100.0 | 100.0 | 100.0 |

(1) January - June

Sources: Statistical pocket book of Yugoslavia, 1974 and Indeks



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