



ECONOMIC SURVEYS

I. 2. b.. e.

Socialist Federal  
Republic of  
**YUGOSLAVIA**

ORGANISATION FOR ECONOMIC  
CO-OPERATION AND DEVELOPMENT

PARIS SEPTEMBER 1967

# BASIC STATISTICS OF YUGOSLAVIA

## THE PEOPLE

Area (1,000 sq.km) .....	256	Net natural increase in population (1960-1966 in thousands):	
Agricultural area (1966, 1,000 sq.km) .....	148	Annual average .....	238
Population (1966, estimates in thousands):		Annual average per 1,000 inhabitants .....	12.2
Federal Republic .....	19,735	Employment in the socialised sector (september 1966) in thousands .....	3,487
Republics:		of which:	
Bosnia and Herzegovina .....	3,667	Industry .....	1,358
Montenegro .....	520	Construction .....	305
Croatia .....	4,312	Agriculture .....	293
Macedonia .....	1,527	Persons employed on individual agricultural holdings (results of the 1960 Census of agriculture) .....	5,585
Slovenia .....	1,663		
Serbia .....	8,046		
Major cities:			
Belgrade .....	715		
Zagreb .....	510		
Skopje .....	238		
Sarajevo .....	235		
Ljubljana .....	190		
Titograd .....	45		
No. of inhabitants per sq.km. ....	77		

## PRODUCTION

Gross national product at factor cost in 1965 (billions of former dinars) ..	8,493	Origin of GNP at factor cost in 1965 (per cent of GNP):	
GNP per head in 1965 (thousands of former dinars) .....	435	Agriculture, forestry and fishing .....	24
Gross fixed asset formation (average 1958-1965, billions of former dinars):	1,315	Mining and manufacturing .....	34
— per cent of GNP .....	30	Construction .....	9
— per head (thousands of former dinars) .....	70	Other .....	33

## THE GOVERNMENT

The Federal Assembly:		The Chamber of Social Welfare and Health .....	120 members
The Federal Chamber .....	190 members	The Organisational-Political Chamber .....	120 »
The Economic Chamber .....	120 »	The Council of the Federation .....	87 »
The Chamber of Education and Culture .....	120 »		

## LIVING STANDARDS

Calories per head and day (1966) .....	3,200	Number of telephones per 1,000 inhabitants in 1966 .....	23
Consumption of energy (thermal), in 1966, in millions of Kcal., per capita ..	7.2	Number of radio sets per 1,000 inhabitants in 1966 .....	152
Number of passenger cars per 1,000 inhabitants in 1966 .....	129	Average monthly personal income in 1966 (former dinars) .....	69,300

## FOREIGN TRADE

Exports:		Imports:	
Main exports (percentage of total exports in 1966):		Main imports (percentage of total imports in 1966):	
Food, beverage and tobacco .....	24.3	Food, beverage and tobacco .....	15.6
Raw materials and semi-finished goods ..	39.4	Raw materials and semi-finished goods ..	51.7
Manufactured goods .....	36.3	Manufactured goods .....	32.7

## THE CURRENCY

Monetary unit: dinar.

Currency per US \$ .....

12,5 new dinar

ECONOMIC SURVEYS BY THE OECD

# YUGOSLAVIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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- to contribute to sound economic expansion in Member as well as non-member countries in the process of economic development;*
- to contribute to the expansion of world trade on a multilateral, non-discriminatory basis in accordance with international obligations.*

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## INTRODUCTION

The major reforms introduced in 1965 continued to be applied throughout 1966 and during the first half of 1967. New measures were taken, notably with regard to the organisation of banking and credit, the financial structure of enterprises and foreign trade.

The disinflation that followed the reforms caused an appreciable slowdown in economic growth. It was solely thanks to a very good harvest that the social product made satisfactory progress in 1966. However, as from the middle of the year the growth of incomes speeded up sharply again, which prompted the authorities to take firmly restrictive measures. These measures, which were further reinforced at the beginning of 1967, seem to have caused an appreciable slowdown in internal demand after the early months of the year.

In the two-year period since the introduction of the reforms many significant improvements have emerged. At the same time there is the question of whether these reforms will suffice to ensure the smooth running of the Yugoslav economy coupled with balanced growth. The problems that arise in this connection are discussed in Part III of this survey. The additional reform measures introduced in 1966 and 1967 are described in Part I, whilst recent trends in the economy are analysed in Part II. Economic prospects for the immediate future and the problems at present confronting the authorities in their economic policy are considered in the conclusions.

### I. THE IMPLEMENTATION OF INSTITUTIONAL REFORMS AND FURTHER RELATED MEASURES

In the context of the institutional development of the economic system, under way for several years now, radical changes were introduced in 1965<sup>1</sup>. The 1965 reforms were a further stage in the introduction of elements of market mechanisms into the functioning of the Yugoslav system. The price structure was readjusted, the foreign exchange rate and the trade

1. See OECD Economic Surveys: *Yugoslavia*, 1962, 1963, 1964, 1965 and in particular, concerning the 1965 reforms, the *1966 Survey* (pages 7 to 13).



regulations were modified, the banking system was reformed, and important changes were made in the distribution of investment resources. The reform of the price system was not a measure to ensure completely free determination of prices by market forces, but rather a first step in that direction. The aim was to eliminate distortions and anomalies inherited from the former administrative system by means of an upward adjustment of prices in variable proportions. However, to avoid excessive increases, price controls were introduced or maintained on 90 per cent of products. The devaluation of the dinar was accompanied by an appreciable reduction in customs duties, whilst export subsidies were abolished. The banks were obliged to specialise, thus becoming commercial banks, investment banks or mixed banks, and their existence now depends on the capital subscription of certain "founders" (enterprises, local authorities, etc.), which also manage them. The system of regulating credit was not radically affected by the reforms. Lastly, the reforms considerably speeded up the transfer of investment resources to the banks and enterprises together with the investment funds held by the socio-political organisations. On the basis of these measures, the authorities hoped gradually to establish a capital market adapted to the specific conditions of the Yugoslav system.

Further measures were taken in 1966 to continue and complete the 1965 reforms in some important respects. With regard to credit, the National Bank's instruments of control underwent considerable adjustment. The system hitherto in force was based essentially on qualitative criteria defining the types and terms of short-term credit which the National Bank was required to refinance (credits of up to three months for commerce, of up to six months for exports, etc.; credit on stocks had to be less than the value of the stocks held by the debtor enterprise, etc.). Under that system the only way in which it was possible to influence the total amount of credit to the economy was by varying the interpretation of the regulations regarding rediscountable credits, periods of repayment and the interest rate for each category of credit. The system was a cumbersome one; for the most part the banks fulfilled no more than a purely administrative function, and it was easy for credit to expand beyond the limits envisaged by the National Bank. Under the new system, which entered into force on 1st January, 1967, the credit granted by the National Bank to any given bank may not exceed the amount which the latter holds on deposit with the National Bank (i.e. the amount of its compulsory holdings with the National Bank, now fixed at the maximum permitted by the law, namely 35 per cent of a bank's sight deposits). Two-thirds of this credit is consolidated and the banks are free to use it as they wish, the remaining third being used for rediscounting. This proportion was subsequently reduced to 20 per cent, and at the end of March 1967 to 15 per cent, of the bank's deposits with the National Bank. In conjunction with these measures the National Bank twice lowered (in January and



March 1967) its aggregate credit ceiling, by 12 per cent on each occasion. It should be noted that export credits remain outside the quota. As was the case under the old system, the ratio of banks' deposits with the National Bank to the credit received from the latter varied with each bank, and an interim period of adjustment was allowed during the first half of 1967. The new system clearly gives much greater freedom to the banks, which can distribute their credit as they see fit, within the quantitative limits they are required to observe. Furthermore, a short-term money market was set up within the framework of the Association of Banks.

The new exchange rate and the adjustment of the price system called for a revalorisation of enterprises' fixed assets, which has duly been effected. In addition, the depreciation rates fixed by law are now regarded as minimum rates. All other things being equal, the revalorisation of enterprises' fixed assets and the consequent increase in depreciation allowances inevitably have the result of reducing the net income to be distributed in the case of each enterprise. The position of marginal enterprises will thus become more difficult.

As from January 1967, important changes were introduced in the foreign trade regulations. Apart from a few minor restrictions, exports have been completely liberalised. Imports are now covered by three quite separate schemes. Products on the liberalised list can be imported without restriction by enterprises and paid for in dinars. It is estimated that in 1967 about 50 per cent of imports will be transacted under this scheme. Non-liberalised products may be imported depending on the available exchange resources of the importing enterprises. These resources derive: *a*) from an inter-enterprise distribution by the Federal Economic Chamber of an aggregate sum of foreign exchange for the purpose of importing these products; *b*) from a proportion of the foreign exchange earnings of exporting enterprises (generally 7 per cent) which the latter may use freely; and *c*) from foreign exchange purchases which all enterprises are entitled to make in order to buy capital goods, up to a given percentage (in most cases 10 per cent) of their depreciation account. Lastly, in the case of products covered by bilateral agreements (which still account for a large proportion of Yugoslavia's foreign trade transactions) import priority is given under these agreements to those enterprises which took part in drawing up the bilateral lists. It should also be noted that the machinery of foreign exchange financing has been enlarged and made more flexible. Enterprises can now contract loans abroad provided they can repay them out of their export earnings. And all banks can now engage in foreign credit operations provided they fulfil certain minimal conditions.

With regard to prices, on the other hand, the progress made so far has been modest. At present nearly 65 per cent of all industrial products are still subject to price controls. The Act on formation and control

of prices, passed by the National Assembly in February 1967, is based on the principle of free determination of prices and defines the cases and conditions in which the socio-political institutions are authorised to intervene.

## II. RECENT TRENDS IN THE ECONOMY

The 1965 reforms have had a considerable effect on the current economic situation. The enterprises did not, at first, respond to the sharp rise in prices with a corresponding increase in wages. This meant that for several months the trend of wages lagged behind that of the cost of living. The result was a drop in consumption during the second half of 1965, accentuated by the restrictions on consumer credit. The considerable increase in enterprises' incomes, following the reforms, should have led to a growth of investment, but in fact investment declined, probably as a result of the credit restrictions. Industrial production was affected by the weakening

TABLE 1. SUPPLY AND USE OF RESOURCES

*Billions of old dinars, at current prices.*

	1963	1964	1965
1. Consumers' expenditure on goods and services . .	2,395	3,095	4,360
2. Government current expenditure on goods and services . . . . .	998	1,155	1,484
<i>of which</i> : National Defence . . . . .	286	332	429
3. Enterprises' gross fixed asset formation . . . . .	1,417	1,840	1,945
4. Government gross fixed asset formation . . . . .	168	198	208
5. Change in stocks . . . . .	354	750	1,039
6. Exports of goods and services, including income payments from the rest of the world . . . . .	824	958	1,938
7. <i>minus</i> : Imports of goods and services, including income payments to the rest of the world . . . . .	912	1,135	1,909
Statistical discrepancy . . . . .	+ 60	+ 96	+ 37
8. <i>equals</i> : Gross national product at market prices . .	5,304	6,957	9,102
9. <i>minus</i> : Enterprises' depreciation allowances . . . .	437	579	684
10. <i>minus</i> : Government depreciation allowances . . . .	7	8	8
11. <i>equals</i> : Net national product at market prices . .	4,860	6,370	8,410
12. <i>minus</i> : Indirect taxes . . . . .	645	722	769
13. <i>plus</i> : Subsidies . . . . .	162	215	160
14. <i>equals</i> : Net national product at factor cost . . . .	4,377	5,863	7,801
15. <i>minus</i> : Income payments from the rest of the world . . . . .	18	33	51
16. <i>plus</i> : Income payments to the rest of the world . .	29	43	77
17. <i>equals</i> : Net domestic product at factor cost . . . .	4,388	5,873	7,827

Source: Yugoslav Memorandum.

of real demand and its growth rate steadily declined during 1965 and 1966. The reforms had a very significant effect on foreign trade. As from 1964 the restrictive measures halted the growth of imports; and the considerable impetus given to exports by the devaluation of the dinar resulted in a marked reduction of the trade deficit. Overall, the 1965 reforms produced effects that differed from sector to sector: they slowed down the growth of aggregate demand because of the decline in private consumption and investment spending, but increased net external demand; they brought heavy pressure to bear on the processing industries, but gave a fillip to agriculture and basic industries.

The picture gradually changed, however, in the course of 1966. The growth of personal incomes caught up with and actually overtook the rise in the cost of living as from the second quarter of the year. Similarly, the expansion of investment by enterprises picked up considerably after the first quarter of 1966. The rapid increase in domestic demand caused an appreciable growth in imports and in the trade deficit. The new credit restrictions introduced in the Autumn of 1966 succeeded in checking the growth of investment; personal incomes continued their strong upward movement until the end of 1966, but seemed to level off in the first few months of 1967.

#### *Factors of demand*

Full national accounts figures are not yet available to judge the trend of private consumption in 1966. The index of retail sales (socialised sector) only shows, for the whole year, an increase of 2 per cent in real terms over 1965. However, this average is taken over two entirely dissimilar phases: in the first half-year there was a drop of 4.5 per cent followed by an increase of 8 per cent in the second. In the first quarter of 1967, the growth in retail sales in real terms was 18 per cent compared with the level, admittedly very depressed, of the first quarter of 1966. Compared with the first quarter of 1965, the increase was 10.8 per cent, i.e. an annual rate of approximately 5 per cent over the two years.

In the main, this trend in private consumption reflects, of course, the trend of real aggregate wages. The rate of increase in nominal incomes paid out by enterprises to workers continued very high up to the end of 1966: the increases, over the corresponding periods in the preceding year, were 35 per cent in the first half of 1965, 41 per cent in the second, 50 per cent in the first half of 1966 and 33 per cent in the second. But in the second half of 1965, and for part of the first half of 1966, the change in incomes was nil (and even minus) in real terms, owing to the very sharp rise in prices following devaluation and the price reform of July 1965: the cost of living went up by 41 per cent in the first half of 1966 compared with the same period in 1965. As from the second quarter of 1966 the upward movement of prices slowed down very considerably, but that of wages much

TABLE 2. PRIVATE CONSUMPTION INDICATORS

	1964	1965	1966	1964				1965				1966				1967	
				I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II*
<b>I. RETAIL TRADE:</b>																	
in nominal terms																	
(1963 = 100) .....	127	167	209	95	120	132	161	123	153	170	222	165	202	215	252	189	221
in real terms <sup>1</sup>																	
(1963 = 100) .....	116	118	120	92	112	119	140	102	121	113	135	96	117	125	142	103	118
in real terms <sup>1</sup> (base: cor- responding period in pre- vious year) .....	116	102	102	122	112	117	115	110	108	95	96	94	97	111	105	107	101
<b>II. PERSONAL INCOMES:</b>																	
in nominal terms																	
(1963 = 100) .....	127	175	244	106	118	131	151	147	156	181	216	216	237	251	276	263	...
in real terms <sup>2</sup>																	
(1963 = 100) .....	112	115	130	101	107	114	125	115	112	112	121	116	123	134	145	132	...
in real terms <sup>2</sup> (base: cor- responding period in pre- vious year) .....	112	103	113	110	114	109	116	114	104	98	96	101	110	120	120	114	...

1. Index of retail trade in nominal terms adjusted by retail price index.

2. Index of personal incomes in nominal terms deflated by cost-of-living index.

\* Provisional figures.

Source: Indeks.



less so, with the result that the purchasing power of wages and with it the volume of private consumption began to increase fairly rapidly. A second factor which must have acted as a stimulus to consumption as from the second half of 1966 was the excellent harvest that year. This brought pressure to bear on agricultural prices (whose decline, beginning in the second quarter, only ceased at the end of the year) and at the same time caused a large increase in incomes in the farming sector and in the latter's purchases of manufactured goods.

Fixed capital investment rose by 11 per cent in nominal terms in 1966, but in real terms it fell by 2 per cent compared with 1965. In part this downward trend in fixed investment, which began in 1965, reflects the decline, appreciable in nominal terms and doubtless very heavy in real terms, in investment in non-economic activities, due to the policy followed with regard to both public investment and housing construction. Investment in economic activities, which fell in 1965, increased by 21 per cent in value in 1966. Allowing for the rise in prices and wages from one year to the next the volume change is likely to have been nil or minus. In value terms, investment in agriculture (which covers only the socialised, and smaller, portion of this sector) rose steadily until the first quarter of 1967, probably faster than did prices. The trend of other investment in economic activities, particularly industry, was less consistent. In value terms the increase was negligible up to and including the first quarter of 1966. In the second and third quarters of 1966 it was very substantial (+ 37 per cent in industry and mining, compared with the corresponding periods in 1965). The credit restrictions introduced in Autumn 1966 and reinforced at the beginning of 1967 slowed down this increase considerably, so that it was only 8 per cent in value in the first quarter of 1967. Within the industrial sector, it would seem that only the basic industries (which benefited from the price reform) were able to step up their investment significantly, whereas the processing industries underwent the effects of both the changed price structure and the marked slackening of the final demand for their product.

The available data on the trend of stocks in 1965 and 1966 show an increase at current prices that roughly kept pace with the rise in prices. At first sight it would seem, therefore, that in real terms there has been no accumulation of stocks since the economic reform. Fragmentary information of a qualitative nature indicates, however, that fairly large stocks of finished products were built up in 1966 at both the production and distribution stages, and this trend became even more pronounced in the early months of 1967. It is probable that several tendencies of different nature and significance have been active in this field over the past two years. With regard to certain specific industries and products—especially raw materials—the economic reform and, more particularly, the progressive de-restriction of foreign trade doubtless made possible the building-up of adequate stocks, this being in line with the aims of the authorities. At the same time, however, the weakness of demand was almost certainly respon-

TABLE 3. FIXED INVESTMENT BY INDUSTRY

	YEARS		
	1964	1965	1966
TOTAL INVESTMENT .....	18,828	19,150	21,295
I. Investment in economic activities .....	12,874	12,462	15,084
<i>of which:</i> 1. Industry and mining .....	6,708	6,949	8,424
2. Agriculture and forestry .....	1,924	1,806	2,170
3. Construction .....	457	316	349
4. Transport .....	2,426	2,227	2,686
5. Commerce, catering and craft trades .....	1,359	1,164	1,455
II. Investment in non-economic activities .....	5,954	6,688	6,211
<i>of which:</i> 6. Housing and communal activities .....	3,947	4,605	3,387
7. Cultural and social activities, social services and administration .....	2,007	2,083	1,824

Source: Statistički bilten Sluzbe drustvenog knjigovodstva, 1967.

sible for involuntary stockpiling of finished products, particularly in the processing industries. The reabsorption of these stocks has probably held back production during this period and is doubtless continuing to do so. So that the stocks may run down more easily, an act which came into force on 1st June, 1967 enables enterprises to set off any losses incurred by selling off their stocks at low prices in 1967 against their aggregate income for the next three years.

No national accounts figures are available concerning the trend of public consumption in 1966. The consolidated budget figures (Federation, republics and communes) show a much slower rate of increase in total expenditure (see Table 9); in real terms, total spending probably even declined in the period 1965-66. Public investment registered a substantial decrease in value terms, and certainly an even larger one in volume terms (see Table 3).

There was a brisk growth in exports in 1965 (23 per cent over 1964). They gradually slowed down from quarter to quarter, in 1966; but in the first half of 1967, following an accidental decline at the beginning of the year, they picked up again appreciably. It seems as if the slower rate of growth in exports which set in after the fourth quarter of 1965 was



## IN THE SOCIALISED SECTOR

*Value in millions of new dinars.*

INDICES		1965				1966				1967	
1965	1966	I	II	III	IV	I	II	III	IV	I	II
1964	1965										
102	111	3,144	4,728	4,544	6,734	3,090	5,554	5,628	7,023	3,491	5,402
97	121	2,103	3,154	2,750	4,455	2,201	3,930	4,022	4,931	2,672	4,112
104	121	1,242	1,730	1,487	2,490	1,270	2,224	2,198	2,732	1,372	2,232
94	120	181	417	404	804	206	560	677	727	292	407
69	110	70	94	59	93	47	79	108	115	53	106
92	121	371	534	573	749	448	670	691	877	494	660
86	125	239	379	227	319	230	397	348	480	461	707
112	93	1,041	1,574	1,794	2,279	889	1,624	1,606	2,092	819	1,290
118	95	726	1,098	1,365	1,416	644	1,160	1,152	1,431	566	934
104	88	315	476	429	863	245	464	454	661	253	356

primarily due to the difficulties experienced by Yugoslav exporters on foreign markets, and particularly on Western markets. Still, the growth rate achieved in 1966 (12 per cent) can be regarded as satisfactory. In most Western European countries demand was weak, and the high Yugoslav rate of 1965 was largely the result of an accumulation of credit balances with bilateral trading countries. The expansion of exports, albeit moderate, was enough to enable certain industries—notably electrical products, metal products, chemical products, non-ferrous metals and textiles—to maintain a reasonable level of output, and thus neutralised to some extent the effects of the weakening of internal demand.

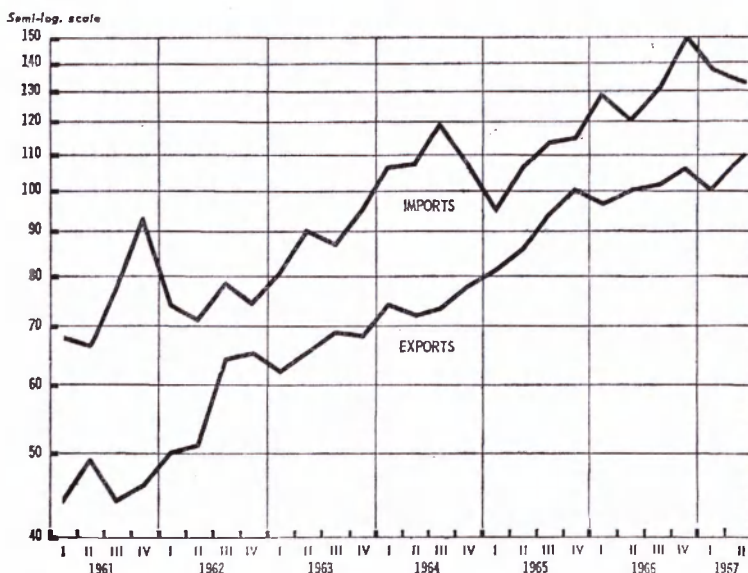
### *The trend of supply*

It is estimated that the increase in the gross national product in 1966 was of the order of 8 per cent (in volume). This increase was essentially due to the excellent harvest. On the other hand, the slowdown in the growth of industrial production, already apparent in 1965, became gradually more pronounced during 1966 (see Diagram 2). For the year 1966 as a whole, the rise in the industrial production index was 4.2 per cent, but in the fourth quarter it was already down to 2.8 per cent and was no more than 2 per cent

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*Diagram 1. FOREIGN TRADE*

§ MILLION, QUARTERLY AVERAGES SEASONALLY ADJUSTED



Source: OECD Main Economic Indicators.

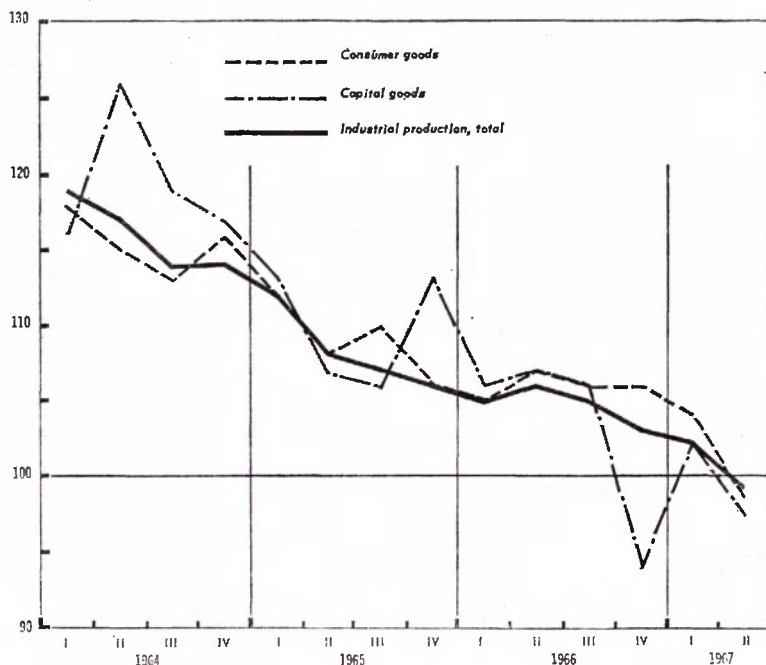
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for the first quarter of 1967. In April 1967 the index was 3.4 per cent below its level in April 1966, but it picked up again in May (+ 3 per cent over May 1966).

The slowing down of the growth of industrial production is common to all sectors. It is less marked, however, in the production of consumer goods than in that of capital goods and intermediate products. Where individual industries are concerned, the differences in growth are more pronounced. Electrical power and crude oil and derivatives, favoured by long-term tendencies, registered high rates of expansion. The paper industry, following the expansion of its production capacity, the textiles industry, helped on by exports, and the food industry, profiting from the excellent harvest of 1966, more or less maintained the same rates of increase as in the previous year. But the industries in which production showed a much slower rate of increase, or actually declined, were engineering, cement and construction, which were affected by the standstill in investment; coal production, for structural reasons; non-ferrous metals, because of capa-

Diagram 2. INDUSTRIAL PRODUCTION BY SECTORS

BASIS: SAME PERIOD OF PREVIOUS YEAR



Sources : Indeks; OECD Main Economic Indicators.

city bottlenecks; and wood-working, owing to weakening of the export market.

Agricultural production, on the other hand, helped on by the extension of mechanisation and modern crop growing techniques as well as by good weather, showed an increase of 18 per cent over 1965. In the socialised sector alone, where the investment drive was strongest, the increase amounted to 21 per cent. Cereals, certain industrial crops and fruit production registered very high rates of growth. Livestock production, on the other hand, was up by only a very small percentage on 1965 (about 2 per cent). Prospects for the 1967 harvest again look very good.

Contrary to what happened in 1965, imports rose sharply in 1966 (22 per cent compared with 1965, and 19 per cent compared with 1964,

TABLE 4. INDUSTRIAL PRODUCTION INDICES BY SECTOR

1960 = 100.

	1964	1965	1966	1964				1965				1966				1967	
				I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
				1. Capital goods .....	143	157	162	120	147	137	168	135	158	145	190	144	170
2. Intermediate products and semi-manufactures .....	152	162	168	138	153	155	161	153	166	163	165	162	171	168	173	163	175
3. Consumer goods .....	161	176	187	145	157	156	187	163	169	171	199	171	181	181	210	178	179
Total .....	153	166	173	137	154	152	170	154	166	162	180	162	175	169	185	165	173

Source: Indeks.

when there was a substantial rise in imports). This growth speeded up in the course of the year, reaching 30 per cent in the fourth quarter as compared with the corresponding period in 1965. The product groups to register the largest increases were food, chemical products, certain semi-manufactured goods and transport equipment. The growth of imports in 1966, a year of gradual weakening in demand, is doubtless connected with the introduction of more liberal import quotas and the lowering of customs tariffs by quite an appreciable margin (on average from 12 per cent in 1964 to 3 per cent in 1966 for raw materials, from 17 per cent to 8 per cent for semi-manufactures, and from 42 per cent to 21 per cent for capital goods). The upward movement continued in the first half of 1967, but despite partial liberalisation of imports at the beginning of the year, it did not gain momentum (+ 9 per cent over the first half of 1966).

The trend of the Yugoslav economy during the first months of 1967 was a continuation of the tendencies prevalent at the end of the previous year, with a fairly substantial increase in private consumption fostered by a rapid rise in wages and a higher rate of investment by enterprises. From March onwards, however, the growth of internal demand slowed down appreciably as a result of the measures taken in the autumn of 1966 and the new ones, prepared at the end of 1966, which entered into force at the beginning of 1967 (reinforcement of credit restrictions, liberalisation of imports). Thus, the increase in personal incomes in the socialised sector gradually fell from 25 per cent in January to 12 per cent in April-May (from 16 per cent to 4 per cent in real terms). At the same time exports began to rise again, while the growth of imports remained moderate despite the liberalisation measures.

### *Economic equilibrium*

The combined impact of the reforms and recent short-term trends on employment has been considerable, although difficult to gauge exactly. Employment in industry (mining and manufacturing in the socialised sector) fell back slightly in 1966, but seems to have levelled off since. Apparent open unemployment (outstanding applications for employment), which rose in 1965, showed hardly any variation in 1966 and in the first quarter of 1967, seasonal fluctuations apart. It is practically certain that the stabilizing factors were the emigration of workers to the industrialised countries of Western Europe (especially the Federal Republic of Germany) and, more importantly, the cessation of internal migration from rural to urban areas and probably even a reversal of this movement.

The trend of prices since the reform of summer 1965 would seem to indicate that elements of strain still persist in the system. For one thing, producer prices of industrial products continued to rise somewhat during 1966. For another, the structure which emerged finally differs in certain respects from that envisaged: the most notable examples are the prices of non-



TABLE 5. BREAKDOWN OF IMPORTS

*In millions of dollars.*

	1963	1964	1965	1966	1965		1966	
					1ST HALF	2NDHALF	1ST HALF	2NDHALF
<b>A. SITC SECTIONS:</b>								
0 and 1. Food, drink and tobacco .....	201	167	189	237	122	67	139	98
0.4. <i>of which:</i> Cereals and cereal preparations .....	124	69	97	109	68	29	78	31
2. Crude materials, inedible, except fuels .....	159	211	216	212	95	121	106	106
3. Mineral fuels .....	47	66	72	82	31	41	37	45
5. Chemicals .....	111	138	118	150	50	68	73	77
6. Semi-manufactures .....	187	277	279	370	128	151	174	196
6.7. <i>of which:</i> Iron and steel .....	88	123	124	174	60	64	71	76
7. Machinery and transport equipment .....	307	398	356	459	172	184	203	256
7.1. <i>of which:</i> Machinery other than electrical .....	208	267	216	267	106	110	116	151
7.2. Electrical machinery, apparatus and appliances .....	58	68	63	83	29	34	37	46
7.3. Transport equipment .....	41	62	78	110	37	41	50	60
8. Miscellaneous manufactured articles .....	35	51	43	55	20	23	25	30
9 and 4. Miscellaneous .....	10	14	14	10	4	10	9	1
Total .....	1,057	1,322	1,287	1,575	622	665	766	809
<b>B. ECONOMIC CATEGORIES:</b>								
1. Intermediate products and semi-manufactures .....	610	826	799	905	365	434	440	465
2. Capital goods .....	212	285	254	343	123	131	153	190
3. Consumer goods .....	235	211	234	327	134	100	173	154
Total .....	1,057	1,322	1,287	1,575	622	665	766	809

Source: OECD: Foreign trade by commodity categories; Index.



ferrous metals, which were influenced by the international trend in metal prices (copper), and prices in the food industry, which were affected by the rise in agricultural prices. Smaller-scale differences were also noticeable; these concerned prices in the metal processing industry, the building materials industry and the leather and footwear industry. However, in the first half of 1967 the general tendency towards stabilization of prices was very marked. Prices of agricultural products continued to rise until the middle of 1966, levelling off subsequently but only as the result of an exceptionally good harvest. Lastly, retail prices and the cost of living continued to show an appreciable increase, despite the levelling off of agricultural prices and the slower rate of advance in production prices of industrial products. Although less than in previous years, the rise was over 7 per cent in the period from the first quarter of 1966 to the first quarter of 1967. This trend, in a period when demand pressure lessened overall, can largely be explained by the rise in prices of services and rents consistent with the policy of the authorities in this field.

External equilibrium, which was established in 1965, was more or less maintained in 1966. The 1965 surplus on current transactions all but disappeared, although in some respects the pattern of foreign transactions can be said to have improved. There was a larger trade deficit owing to the renewed growth of imports, but this was offset by a considerable increase in net invisible earnings, mostly from tourism and emigration. This trend augurs very well for the future, even if the rate of increase were gradually to level off. The balance on capital movements was slightly less than in 1965 (\$ 135 million as against \$ 142 million), a fairly appreciable increase in long-term credit received being offset by larger repayments of the external debt. Overall, non-monetary transactions showed a substantial surplus (\$ 135 million), although less than in 1965 (\$ 208 million).

#### *Economic policy in 1966 and 1967*

The 1965 reforms aimed primarily at structural changes in the economy. But they also incorporated elements on which the authorities were relying to improve the situation with regard to short-term equilibrium: relative disinflation through the considerable increase in prices decided on in the summer of 1965, improvement of the external balance through devaluation, development of foreign competition through the change in trade regulations. The trend of the economy did not entirely live up to these expectations, and for two reasons. First, the reforms were not applied in full: the revaluation of enterprises' capital did not take place until 1967, prices were readjusted but not liberalised and imports were not liberalised until the beginning of 1967, and then only partially. These delays, some of which may be explained by the precarious balance-of-payments situation, deprived the measures introduced in summer 1965 of some of their immediate effectiveness. Second, even if the reforms had been applied in full

TABLE 6. PRICE INDICES

1964 = 100.

	1965	PRICES IMMEDIATELY AFTER THE REFORM (SEPT. 1965)	1965 IV	1966				1967		II-1967/SEPTEMBER 1965 (INCREASE IN %)
				I	II	III	IV	I	II	
<b>PRODUCER PRICES:</b>										
I. <i>Industrial products</i> .....	115	124	125	126	127	128	129	131	131	+ 5.6
<i>of which: capital goods</i> .....	104	110	111	112	113	113	114	115	115	+ 4.5
intermediate products .....	115	127	128	128	128	129	130	131	130	+ 3.1
consumer goods .....	117	125	126	129	129	132	133	133	133	+ 6.4
1. Electrical power .....	109	121	121	121	121	121	121	121	122	+ 0.8
2. Coal .....	143	157	158	157	153	153	156	156	153	- 2.5
3. Crude oil and derivatives .....	97	95	95	94	94	94	94	94	95	—
4. Iron and steel .....	115	138	138	138	138	138	138	138	137	- 0.7
5. Non-ferrous metals .....	129	151	156	156	158	164	164	164	173	+ 14.7
6. Non-metallic minerals .....	119	132	132	131	131	131	131	130	129	- 2.3
7. Metal-working .....	107	111	111	112	113	114	115	117	118	+ 6.3
8. Products of electrical industry .....	106	109	109	111	112	115	117	117	117	+ 7.3
9. Chemical products .....	110	116	118	118	119	119	120	122	124	- 6.9
10. Building materials .....	122	137	137	138	138	138	138	141	150	+ 9.5
11. Wood-working industry .....	111	121	121	121	121	121	121	123	123	+ 1.7
12. Pulp and paper .....	108	112	112	112	113	113	113	113	112	—
13. Textiles .....	118	125	128	133	133	133	135	135	132	+ 5.6
14. Leather and footwear .....	109	118	119	120	120	121	123	123	128	+ 8.5
15. Rubber .....	101	98	97	98	99	114	114	114	114	+ 16.3
16. Food products .....	132	154	154	155	157	158	161	163	163	+ 5.8
17. Tobacco .....	83	85	58	58	58	58	58	58	58	...
II. <i>Agricultural products</i> .....	138	150	152	176	179	173	164	177	—	—
III. <b>RETAIL PRICES</b> .....	129	149	152	158	160	160	164	169	171	+ 14.8
IV. <b>COST OF LIVING</b> .....	135	155	158	166	169	165	170	178	183	+ 18.1

Source: Indeks.

TABLE 7. BALANCE OF PAYMENTS

*In millions of dollars.*

	1964	1965	1966 <sup>1</sup>
<b>A. GOODS AND SERVICES:</b>			
1. Exports (fob) .....	905	1,115	1,223
a) Manufactures .....	710	910	996
b) Agricultural products .....	195	205	227
2. Imports (cif) .....	1,342	1,290	1,543
a) Intermediate products and semi-manufactures .....	835	838	920
b) Capital goods .....	285	235	305
c) Consumer goods .....	222	217	318
Trade balance .....	-437	-175	-320
3. Invisibles:			
a) Tourism (net) .....	56	64	94
b) Transport .....	92	118	150
c) Income from investment .....	-35	-47	-62
d) Other services .....	63	80	106
Total invisibles .....	176	215	288
Total A .....	-261	40	-32
<b>B. PRIVATE GIFTS .....</b>	<b>48</b>	<b>26</b>	<b>33</b>
Total (A + B) .....	-213	66	1
<b>C. LONG-TERM CAPITAL TRANSFERS, LOANS AND CREDITS:</b>			
1. Total borrowing of which .....	191	267	287
of which: long-term credit .....	137 <sup>2</sup>	159	194
medium-term credit .....	54 <sup>2</sup>	108	93
2. Loans extended .....	-32	-45	-39
3. Repayment of credit .....	-145	-177	-211
4. Transfers corresponding to property nationalised ..	-4	-3	-5
5. Reparations .....	3	—	—
6. Agricultural surpluses (paid for in dinars) .....	17	—	—
7. Agricultural surpluses (paid for in US dollars) ...	40	100	103
Total C .....	70	142	135
<b>D. SHORT-TERM CAPITAL TRANSFERS, AND GOLD AND FOREIGN EXCHANGE RESERVES:</b>			
1. Transfers under payment agreements (net) .....	40	-71	-28
2. Other foreign assets and liabilities .....	84	-113	-96
3. Gold and foreign exchange reserves .....	19	-24	-12
Total D .....	143	-208	-136
Total (C + D) .....	213	-66	-1

1. Provisional figures.

2. Revised figures.

Source: National Bank of Yugoslavia.

from the outset, they would not have solved the difficult problem of income formation which faces the Yugoslav economy (see page 28 below). Thus, after an initial phase in which internal demand settled to a relatively stable level, there was a further upsurge in the Spring of 1966 both in consumption and investment—probably helped on by the increase in the apparent net income of enterprises, whose capital had not yet been revalued. In consequence, as from the Autumn of 1966 economic policy took on a more restrictive note, which was to be accentuated during the first few months of 1967.

The instrument used for the most part has been credit control. With the exception of export credits, all short-term credit was assigned a quantitative ceiling, in most cases somewhere around the level reached at the end of May 1966. And, at the beginning of 1967, at the same time that the system of control was amended, the National Bank made its terms of application more restrictive (see page 6 above).

The credit policy had significant effects on the financial variables. The increase in the money supply between the end of 1965 and the end of 1966 was only 4.5 per cent, which represents a certain degree of disinflation in view of the growth in the national product at current prices (24 per cent) during the same period. Short-term credit to enterprises went up by only 10.5 per cent in 1966; in particular, the seasonal expansion in the second half of the year remained very limited, credit to government showed hardly any advance, and consumer credit registered an even heavier decline than in 1965. However, the trend of long-term credit does not bear the imprint of the restrictive measures other than in connection with the financing of enterprises, where the amounts extended were only moderately larger (6.8 per cent) than in the previous year. On the other hand, the reduction in short-term credit extended to government in 1966 was partly offset by a considerable increase in long-term credit occurring chiefly in the second half of the year.

The effect of public finance on the economy in 1966 was almost certainly restrictive. It is true that the consolidated government account shows a moderate deficit, slightly larger than in 1965. But the increase in expenditure was very small in value terms (8 per cent as against 20 per cent in 1965), which probably meant there was a decrease in volume terms. Furthermore, public investment fell very sharply (12 per cent in value).

### III. FIRST ASSESSMENT OF THE REFORMS

The numerous and difficult problems facing Yugoslavia in its transition to a socialist market economy have been described several times in previous OECD surveys<sup>1</sup>. Generally speaking, they may be defined as

1. See, in particular, *1966 Survey*, pages 6-7.



TABLE 8. BALANCE SHEET OF THE BANKING SYSTEM

In billions of old dinars.

	1963	1964	1965	1966	1965				1966			
					I	II	III	IV	I	II	III	IV
<b>ASSETS:</b>												
<i>Short-term transactions, total</i> .....	3,354	3,909	4,660	5,167	3,944	4,006	4,440	4,660	4,771	4,893	4,980	5,167
1. Gold, foreign exchange and foreign assets .....	281	281	568	897	294	293	602	568	610	698	819	897
2. Credit to enterprises .....	1,990	2,152	2,420	2,674	2,234	2,218	2,231	2,420	2,499	2,528	2,537	2,674
3. Credit to government .....	603	673	931	925	702	729	866	931	939	924	942	925
4. Consumer credit .....	315	421	391	336	399	401	380	391	382	380	350	336
5. Miscellaneous .....	165	382	350	335	315	365	361	350	341	363	332	335
6. Miscellaneous .....	380	5,951	8,080	9,771	6,096	6,756	7,281	8,080	9,349	9,357	9,591	9,771
<i>Long-term transactions, total</i> .....	233	2,989	4,607	6,169	3,092	3,578	4,010	4,607	5,708	5,747	5,967	6,169
7. Credit to enterprises <sup>1</sup> .....	22	108	171	335	127	122	161	171	174	238	251	335
8. Credit to government and various funds .....												
9. Special claims relating to investment .....	40	2,588	3,136	3,101	2,634	2,816	2,917	3,136	3,175	3,090	3,113	3,101
10. Miscellaneous .....	85	266	166	166	244	240	193	166	292	282	260	166
Total assets .....	3,734	9,860	12,740	14,938	10,041	10,762	11,721	12,740	14,120	14,250	14,571	14,938
<b>LIABILITIES:</b>												
<i>Short-term transactions, total</i> .....	3,354	3,909	4,660	5,167	3,944	4,006	4,440	4,660	4,771	4,893	4,980	5,167
11. Foreign exchange commitments .....	1,819	2,194	2,194	2,285	348	379	655	660	672	794	850	875
12. Money supply <sup>2</sup> .....	1,819	2,194	2,285	2,389	2,291	2,159	2,075	2,285	2,450	2,438	2,951	2,389
13. Near-money <sup>3</sup> .....	1,298	1,358	1,672	1,798	1,258	1,418	1,598	1,672	1,601	1,618	1,140	1,798
14. Miscellaneous .....	25	35	43	105	47	50	112	43	48	43	39	105
<i>Long-term transactions, total</i> .....	380	5,951	8,080	9,771	6,097	6,756	7,281	8,080	9,349	9,357	9,591	9,771
15. Banks' own funds (capital) .....	58	2,379	3,514	893	2,510	2,875	3,088	3,514	3,622	1,133	958	893
16. Time deposits and bills .....	150	547	757	1,302	564	594	700	757	858	1,040	1,161	1,302
17. Deposits and special resources earmarked for investment .....	168	2,907	3,752	7,474	2,983	3,213	3,440	3,752	4,813	7,109	7,446	7,474
18. Miscellaneous .....	4	118	57	102	40	74	53	57	56	75	26	102
Total liabilities .....	3,734	9,860	12,740	14,938	10,041	10,762	11,721	12,740	14,120	14,250	14,571	14,938

1. Including: credit to housing and the communes. The banks have been extending credit for this type of activity as from 1966.

2. Sight deposits, currency in circulation and items in course of settlement.

3. Time deposits (up to one year); certain sight bills; restricted and inactive deposits.

Source: Yugoslav authorities, Statisticki Bilten Sluzbe Drustvenog Knjigovodstva, 1967. Items 8, 9, 16 and 17 are not consolidated.

TABLE 9. PUBLIC FINANCE<sup>1</sup>

	IN BILLIONS OF OLD DINARS					INDICES			
	1962	1963	1964	1965	1966	1963- 1962	1964- 1963	1965- 1964	1966- 1965
<b>I. REVENUE:</b>									
1. Federal budget .....	534	623	776	773	748	117	125	100	97
2. Budgets of the republics ..	139	156	187	305	359	112	120	163	118
3. Budgets of districts and communes .....	257	253	314	626	684	99	124	199	109
4. Total (intra-budgetary transfers included) ....	930	1,032	1,277	1,704	1,791	111	124	133	105
5. Total (intra-budgetary transfers not included).	854	939	1,167	1,472	1,523	110	124	126	103
<b>II. EXPENDITURE:</b>									
1. Federal budget .....	575	577	690	802	764	100	120	116	101
2. Budgets of the republics ..	139	153	184	303	354	111	120	165	119
3. Budgets of districts and communes .....	255	249	299	610	666	97	120	204	111
4. Total (intra-budgetary transfers included) ....	969	979	1,173	1,715	1,784	101	120	146	108
5. Total (intra-budgetary transfers not included).	893	884	1,058	1,524	1,584	99	120	144	108

1. The above figures are consistent with the method of budget presentation prior to 1966, whereby budget reserve funds and special budgetary reserves were not included.

Source: Yugoslav authorities, Statisticki Bilten Sluzbe Društvenog Knjižovodstva.

problems of *optimality and equilibrium* (categories which overlap, but do not coincide), coupled with problems of *transition*.

The process of decentralising economic decision-making and re-establishing the market mechanisms had already advanced significantly with the transfer of a growing share of investment resources to the banks during the period 1961-1965. The reforms of 1965 completed this phase by transferring to the enterprises the bulk of the investment resources still at the disposal of the socio-political institutions (see Table 11). The reforms, moreover, broke new ground in regard to institutional change by tackling the problems of prices, foreign trade and credit mechanisms. Obviously, the aim behind these reforms is not the re-establishment of market mechanisms *per se* but as a means of improving the allocation and utilisation of resources, and in particular the productivity of labour and capital, together with a functioning of the economy that comes closer to equilibrium. There can be no question here of attempting a full assessment of the reforms, which anyway would be premature. However, it seemed worthwhile to devote the next few paragraphs to comments on certain aspects of the reforms in the



light of the experience of the last two years, in order to identify the areas in which major practical issues continue to arise.

Where prices are concerned, it will be remembered that the reforms aimed to stabilize them at a higher level and, most importantly, to develop a new overall price structure. It would seem that these two aims have been partially realised (see Table 6). By comparison with the rise envisaged, the price increases in the fourth quarter of 1965 were moderate. Subsequently, the trend has been divergent. Prices of industrial products rose only moderately throughout 1966, and seem to have levelled off during the first half of 1967. Agricultural prices, after a very sharp increase in the first half of 1966, also seem to have settled, as a result of the exceptionally good harvest. The rise in retail prices and in the cost of living continues to be considerable (+ 6.9 and 7.2 per cent respectively in the first quarter of 1967 compared with the corresponding period in 1966), in spite of the unchanged level of food prices and the weakness of demand. Although this trend is partly attributable to deliberate adjustments in the prices of services, it also shows that the overall equilibrium of the economy continues to pose problems. These problems will be considered later on.

The new price structure aimed at by the reforms included appreciably larger increases in prices of primary and agricultural products than in those of products of the processing industries. It would seem that this aim has been realised broadly speaking, since the relative differences in price levels by industry achieved in the first quarter 1967 are roughly comparable to the ones aimed at. One thing seems clear, however: in a changing economy any set price structure is bound to become inadequate after a certain time. One of the main advantages of a free market is that it permits an almost continuous adjustment of the structure of relative prices to changing technological and economic conditions. Progress towards effective liberalisation of prices in Yugoslavia continues to be limited, although the present weakness of demand would seem to offer the opportunity for taking decisive steps in that direction.

The reforms have undoubtedly produced good results in the sphere of foreign trade. In addition to the general and recognised advantages inherent in unifying the exchange rate and simplifying the channels of financing for foreign transactions, there are definite signs that a growing number of enterprises are becoming export-minded. Furthermore, the degree of import liberalisation which has now, in 1967, been achieved is considerable; as a result of this, and also of the lower customs tariffs, a change in the structure of imports is now under way which cannot but benefit the Yugoslav economy as a whole. It would seem though that the ideal solution, and one towards which efforts should be directed as soon as possible, is total derestriction of imports coupled with full liberalisation of domestic prices. But there are known obstacles to that; the large share of Yugoslav trade with bilateral trading countries, the weakness of the

foreign exchange reserves, and the burden of debt servicing on the Yugoslav balance of payments. The policy line which the Yugoslav authorities intend to follow, namely simultaneous liberalisation of imports and prices of successive products, is perhaps more realistic. Nevertheless, it would seem that this process could be hastened by taking advantage of the present weakness of demand, which minimises the risks of an excessive growth in imports or a sudden upsurge in prices.

The change in the pattern of imports already suggests that available external resources are being put to better use. It is more difficult to judge about the use of domestic resources. The apparent improvement in labour productivity over the last two years does not seem to have been more rapid than in the past, but this may be attributable to the present weakness of economic activity; and it would certainly seem that in a number of industries and enterprises there have been cuts in formerly excessive employment. The position as regards utilisation of fixed capital seems even more difficult to assess: any individual cases of improved utilisation of production capacity installed would certainly be concealed by the general under-utilisation of capacity caused by the standstill in the growth of production. From a more general standpoint, the present under-utilisation of the country's productive potential, justifiable in a period of transition, would raise a serious problem were it to continue.

The foregoing considerations *per se* do not constitute an adequate criterion, since possibly even more important than the problem of allocating existing resources is that of allocating the new resources which are constantly being created in a forward-moving economy. Two of the many aspects of the latter problem merit special consideration at the present stage: the allocation of the aggregate net product between consumption and investment, and the distribution of investment among sectors and enterprises. As regards the first aspect, it will be remembered that the Yugoslav authorities held the opinion for several years that the share of investment in the national product was becoming too large, and that a change of pattern in favour of consumption was desirable up to a point. This would seem to have been taking place since 1965, to judge from the small percentage of growth in investment and the change in the allocation of the net income of the socialised sector, in which the proportion of personal incomes rose from 32.9 per cent in 1964 to 38.5 per cent in 1966 (see Table 10); it is true that in part this increase is apparent, the rise in wages incorporating an element of compensation for the withdrawal during this period of certain subsidies. At the same time the share of depreciation in the gross product declined. This trend will be somewhat retarded, but not halted, by the revaluation of enterprises' capital and the attendant increase in depreciation mentioned earlier (page 7). In the present context, the prevailing trend would seem to point to a gradual increase in the share of personal incomes—and therefore of consumption—in the national product. Admittedly it is difficult to fix *a priori* an opti-

mum distribution of the national product between consumption and investment. But it would be irrational if investment were to fall below the level at which it is possible, not only to ensure continuous modernisation of capital, but to cope satisfactorily with the natural increase in the labour force, the reduction of employment in existing industries due to technological factors, and the need gradually to absorb the under-employed population of rural areas.

TABLE 10. DISTRIBUTION OF NET INCOME OF ENTERPRISES  
IN THE SOCIALISED SECTOR

*In billions of new dinars—current prices.*

	1964	1965	1966	INDICES		STRUCTURE OF NET PRODUCT IN PER CENT		
				1965- 1964	1966- 1965	1964	1965	1966
I. SOCIAL PRODUCT .....	45.28	58.16	70.36	128	121			
Depreciation .....	4.37	4.95	6.13	113	124			
II. NET INCOME .....	40.91	53.21	64.23	130	121	100.0	100.0	100.0
A. <i>Share allocated to socio- political institutions</i> .....	20.16	23.31	25.39	116	109	49.3	43.8	39.5
<i>of which:</i>								
1. Turnover tax .....	4.54	5.57	7.10	123	127	11.1	10.5	11.1
a) Share belonging to the Federation .....	3.64	4.24	5.42	117	128	8.9	8.0	8.4
b) Share belonging to the Republics and Communes .....	0.90	1.33	1.68	148	127	2.2	2.5	2.7
2. Interest on credit .....	2.01	2.19	2.62	109	120	4.9	4.1	4.1
3. Interest payable on capital assets of enterprises .....	1.29	1.55	1.63	105	120	3.2	2.5	2.5
4. Other contributions .....	0.83	1.05	1.42	126	135	2.0	2.0	2.2
5. Tax on personal incomes .....	9.28	11.76	12.42	127	106	22.7	22.1	19.3
6. Tax on enterprises' incomes .....	2.11	1.22	—	58	—	5.2	2.3	—
7. Contribution for the reconstruction of Skopje .....	0.10	0.17	0.20	170	119	0.2	0.3	0.3
B. <i>Share allocated to enter- prises</i> .....	20.75	29.90	38.84	144	130	50.7	56.2	60.5
<i>of which:</i>								
8. Net personal incomes .....	13.45	18.75	24.71	139	132	32.9	35.3	38.5
9. Retained part of corporate incomes .....	7.30	11.15	14.13	153	127	17.8	20.9	22.0

Source: Yugoslav authorities.



The other aspect of the problem is the distribution of investment funds among sectors and enterprises. One anomaly in the previous economic structure would seem to have been the existence of excess productive capacity in some of the processing industries and insufficient capacity in some of the basic industries. One of the aims of the price reform was to rectify this situation, by increasing the net income of these basic industries at the expense of that of the processing industries. Although, as seen earlier, this aim has not been fully realised, it would be safe to say that appreciable progress has been made towards a more rational allocation of resources. But here again it should be noted that the problem is not simply allocating among the major sectors, but among enterprises and individual products as well; however, there are no data available for judging this aspect of the problem. Furthermore, an allocation of investment resources solely by means of the price mechanism, which would rigidly associate extension of capacity with those enterprises with the largest surplus, would not necessarily be an optimum allocation and would have to be adjusted by a mechanism that would enable accumulable funds to be redistributed according to prospects of profitability. The considerable development of the part played by the Yugoslav banking system over the last four years (see Table 11) has to some extent provided an answer to this problem and is one of the most positive of recent achievements.

On the other hand, it does not seem that the terms of the problem of short-term overall equilibrium in Yugoslavia have been altered significantly. In 1966 there was another sharp rise in demand, fostered by the over-rapid increase in wages, which obliged the authorities to take firm measures. The recent improvements in the machinery for controlling short-term trends, particularly in the field of credit, are considerable and will doubtless make possible a more flexible management of aggregate demand. And obviously, an economic system that would preclude the possibility of fluctuations in demand is out of the question. But in the Yugoslav system there is, in addition, a built-in factor of instability in that the enterprises are free to fix prices and wages within the very elastic limits dictated by national and international competition. The enterprises can thus raise their nominal profits and workers' nominal incomes, i.e. create both additional nominal supply and nominal demand with no restraining mechanism to curb the resulting constant tendency towards inflation. Price control is only a partial answer to this problem—since it does not seem to be effective at retail price level—and, anyway, the general institutional policy of the authorities requires that it should be discarded sooner or later. Nor would credit control appear to be an adequate solution. As the experience in 1966 showed once again, it acts after the event and only by inducing a phase of recession. It would be desirable for the authorities to use, in addition, other policy instruments, particularly those of budget policy. But in any event, income formation in the Yugoslav system raises a permanent problem for which a solution

must be found without compromising decentralisation and the self-management of enterprises. It is difficult to see how this could be done without linking, in one way or another, the trend of wages to that of the real efficiency of enterprises.

TABLE 11. INSTITUTIONAL ALLOCATION OF INVESTMENT RESOURCES

	<i>Percentages.</i>						
	1961	1962	1963	1964	1965	1966	1967 <sup>1</sup>
1. Government .....	61.7	59.6	56.4	36.5	26.7	15.7	18.4
2. Enterprises .....	29.5	29.7	27.8	25.9	28.8	39.8	33.4
3. Banks .....	0.9	2.9	9.1	31.4	36.7	37.3	43.8
4. Other .....	7.9	7.8	6.7	6.2	7.8	7.2	4.4

1. 1st half-year.

Source: Statisticki Bilten Sluzbe Društvenog Knjigovodstva 1967.

#### IV. CONCLUSIONS

Under the influence of the 1965 reforms and the measures which continued their implementation, the growth of demand and production slowed down considerably in 1966 and in the first half of 1967. An upsurge in demand, fostered by the expansion of personal incomes, towards the middle of 1966 was checked by the application of credit restrictions, which were reinforced at the beginning of 1967. Following the massive increase in the period 1965-1966, prices have risen more slowly, though still by an appreciable margin. The improvement in the trade balance did not continue in 1966, but the growth in invisible earnings enabled current transactions to remain in balance.

Trends in the economy towards the middle of 1967 seem to reflect the effect of the measures put into application at the beginning of the year. The expansion of internal demand, which was very brisk during the first few months of 1967, has slowed down significantly. The rate of growth in personal incomes has fallen gradually, exports are on the increase again, and the rise in imports remains moderate. However, industrial production does not grow, and there is evidence of an accumulation of stocks of finished products. The 1967 harvest looks like being another very good one and should have a favourable effect on the short-term situation, by

stabilizing agricultural prices, reducing the trade deficit and stimulating the demand for industrial products. This may suffice to restore a normal situation. But if the tendency towards stagnation of production were to be confirmed in the autumn, the authorities should consider the possibility of imparting a moderate stimulus to the economy by using the more flexible means of controlling demand which they now possess. A protracted under-utilisation of the country's productive resources, which not only signifies a loss of potential wealth but, after a certain point, also tends to make it more difficult to solve the problems of readjustment facing the enterprises, should be avoided.

With regard to the results achieved to date by the reforms, assessment is both difficult and complex but the overall record would seem to be positive. A better balance between supply and demand has been achieved, and the excess liquidity in the economy has been eliminated. The balance of payments has been improved and the system of foreign trade regulations has moved towards liberalisation of transactions. Much progress has been made in connection with the allocation of investment funds, operation of the banking system and credit regulations. Relatively less progress seems to have been made in regard to prices. The Yugoslav authorities would do well to take advantage of present demand trends and hasten the joint liberalisation of prices and imports which they have already begun.

The problem of controlling fluctuations in demand and especially the inflationary thrusts that originate in excessive increases in the nominal incomes of enterprises and workers still has to be resolved. The improvement of the instruments of credit control which has already taken place will doubtless enable the Yugoslav authorities to reduce in the future the amplitude of alternating phases of over-expansion and of restrictions leading to recessions. But a more lasting solution to the problem will probably require complementing the economic mechanism by working into the Yugoslav system of income determination a factor which would keep the rise in wages within limits consistent with the increase in real production.



***STATISTICAL ANNEX***

TABLE I. SUPPLY AND USE OF RESOURCES

*Billions of old dinars, at current prices.*

	1960	1961	1962	1963	1964	1965
1. Consumers' expenditure on goods and services .....	1,526	1,822	2,040	2,395	3,095	4,360
2. Government current expenditure on goods and services .....	586	717	853	998	1,155	1,484
<i>of which:</i> National Defence .....	208	248	270	286	332	429
3. Enterprises' gross fixed asset formation .....	842	1,045	1,204	1,417	1,840	1,945
4. Government gross fixed asset formation .....	86	121	129	168	198	208
5. Change in stocks .....	296	275	220	354	750	1,039
6. Exports of goods and services, including income payments from the rest of the world .....	440	522	699	824	958	1,938
7. <i>Minus:</i> Imports of goods and services, including income payments to the rest of the world .....	561	737	763	912	1,135	1,909
Statistical discrepancy .....	- 16	+ 70	+ 3	+ 60	+ 96	+ 37
8. <i>Equals:</i> Gross national product at market prices .....	3,231	3,835	4,385	5,304	6,957	9,102
9. <i>Minus:</i> Enterprises' depreciation allowances .....	242	309	358	437	579	684
10. <i>Minus:</i> Government depreciation allowances .....	6	6	7	7	8	8
11. <i>Equals:</i> Net national product at market prices .....	2,983	3,520	4,020	4,860	6,370	8,410
12. <i>Minus:</i> Indirect taxes .....	305	414	528	645	722	769
13. <i>Plus:</i> Subsidies .....	108	129	165	162	215	160
14. <i>Equals:</i> Net national product at factor cost .....	2,786	3,235	3,657	4,377	5,863	7,801
15. <i>Minus:</i> Income payments from the rest of the world .....	3	4	6	18	33	51
16. <i>Plus:</i> Income payments to the rest of the world .....	8	14	19	29	43	77
17. <i>Equals:</i> Net domestic product at factor cost .....	2,791	3,245	3,360	4,388	5,873	7,827

Source: Memorandum.

TABLE II. INDUSTRIAL ORIGIN OF NATIONAL PRODUCT AT FACTOR COST

*Billions of old dinars, at current prices.*

	1958	1959	1960	1961	1962	1963	1964	1965
1. Agriculture, forestry and fishing .....	555	708	734	837	973	1,135	1,492	2,003
<i>of which:</i>								
a) Agriculture .....	532	682	700	789	915	1,071	1,404	1,883
b) Forestry, hunting, etc. ....	23	26	34	48	58	64	88	120
c) Fishing .....	—	—	—	—	—	—	—	—
2. Mining and quarrying .....	87	109	116	149	148	176	203	282
3. Manufacturing .....	685	837	1,028	1,089	1,136	1,392	1,952	2,570
a) Food, drink and tobacco .....	64	72	90	112	123	159	225	302
b) Textiles .....	70	80	98	102	110	136	194	276
c) Clothing and footwear .....	43	46	54	61	67	72	109	160
d) Wood and cork products including furniture .....	61	74	94	91	91	112	163	199
e) Paper, printing and publishing .....	29	34	42	59	68	78	107	150
f) Chemicals and allied trades .....	67	84	103	101	104	138	199	279
g) Stone, clay and glass .....	43	50	64	70	65	81	103	147
h) Basic metal industries .....	72	88	98	83	85	94	130	170
i) Metal manufacture, engineering and electrical goods .....	168	215	266	261	255	314	441	515
j) Transport equipment .....	37	54	72	108	126	157	218	292
k) Other manufacturing .....	30	39	47	41	42	51	63	80
4. Electricity, gas and water works .....	40	45	52	82	96	115	163	208
5. Construction .....	128	162	204	316	339	433	621	760
6. Transportation and communication .....	126	158	210	247	289	363	443	592
7. Wholesale and retail trade .....	155	188	241	295	310	383	562	703
8. Banking, insurance and real estate .....	42	47	63	69	88	90	113	147
9. Ownership of dwellings .....	31	32	35	38	41	43	51	65
10. Public administration and defence .....	155	170	190	214	227	262	316	425
11. Health and educational services .....	68	82	110	121	208	239	310	473
12. Miscellaneous services .....	49	57	71	91	138	157	217	314
13. Gross domestic product at factor cost .....	2,108	2,574	3,039	3,561	4,035	4,832	6,458	8,520
14. Net income payments to factors of production due from the rest of the world .....	— 4	— 5	— 5	— 10	— 13	— 11	— 9	— 27
15. Gross national product at factor cost .....	2,104	2,569	3,034	3,551	4,022	4,821	6,449	8,493

Source: Memorandum.

TABLE III. INDUSTRIAL PRODUCTION

	UNIT OR BASE	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
<i>Indices of Industrial Production:</i>											
1. Total .....	1953 = 100	170	189	214	247	265	283	327	379	410	427
2. Mining .....		154	161	176	194	214	224	243	262	271	271
3. Manufacturing .....		171	192	219	255	272	290	338	400	434	454
4. Food, beverages and tobacco .....		164	181	192	219	227	234	281	324	347	367
5. Textiles .....		170	185	203	233	240	264	306	344	368	397
6. Chemicals .....		233	276	346	394	434	476	590	732	887	1,015
7. Basic metals .....		221	247	279	321	331	350	374	412	446	471
8. Metal products (engineering) .....		149	168	196	235	244	247	284	340	373	389
<i>Output of Selected Products:</i>											
9. Electricity .....	bill. kWh	6.3	7.4	8.1	8.9	9.9	11.3	13.5	14.2	15.5	17.2
10. Lignite .....	mill. tons	16.8	17.8	19.8	21.4	22.8	23.5	26.1	28.2	28.8	28.2
11. Petroleum products .....	»	1.0	1.1	1.2	1.3	1.4	1.7	1.8	2.2	2.9	4.1
12. Copper ore .....	»	2.0	2.3	2.2	2.4	3.2	5.1	5.6	5.9	6.0	5.6
13. Lead and zinc ores .....	»	1.8	1.8	1.8	1.9	1.2	2.2	2.3	2.4	2.4	(2.4)
14. Crude steel .....	»	1.0	1.1	1.3	1.4	1.5	1.6	1.6	1.7	1.8	1.9
15. Cement .....	»	2.0	2.0	2.2	2.4	2.3	2.5	2.8	3.0	3.1	3.2
16. Metal working and woodworking machinery .....	thousand	3.9	3.4	3.5	4.5	5.8	5.9	6.2	9.0	11.0	10.3
17. Building machinery .....	tons	8.4	14.0	11.6	6.9	8.3	7.2	7.3	13.3	13.0	16.9
18. Rotating machines .....	»	5.6	4.9	5.8	8.2	9.0	8.7	9.3	9.2	11.0	13.9
19. Wood pulp and cellulose .....	»	139	148	161	211	235	254	276	327	378	407
20. Cotton fabrics .....	mill. sq. m.	207	219	229	257	269	312	348	378	394	416

Source : OECD General Statistics, memorandum, Statistical Yearbook of the SFRY.

TABLE IV. AGRICULTURE

	UNIT OR BASE	1957	1959	1958	1960	1961	1962	1963	1964	1965	1966
<i>Indices of agricultural output:</i>											
1. Total .....	1951-55=100	141	124	164	148	139	145	158	167	152	
2. Crop production .....	»	143	118	165	143	136	140	158	167	148	...
3. Livestock production .....	»	125	131	150	149	148	144	145	155	159	...
<i>Production:</i>											
4. Wheat .....	mill. tons	3.1	2.5	4.1	3.6	3.1	3.5	4.1	3.7	3.5	4.6
5. Maize .....	»	5.7	4.0	6.7	6.2	4.6	5.3	5.4	7.0	5.9	8.0
6. Sugar beet .....	»	2.0	1.5	2.4	2.3	1.8	1.9	2.7	2.8	2.6	4.0
7. Meat .....	'000 met. tons	449	469	543	602	589	622	611	657	757	686
8. Forestry cuttings .....	mill. cubic m.	13.0	13.3	14.0	14.7	14.8	15.8	17.3	17.2	17.4	17.1
9. Number of tractors in use <sup>1</sup> .....	'000	20.5	26.5	31.7	33.7	36.5	35.3	38.2	43.3	45.4	45.4
10. Consumption of fertilizers .....	'000 tons	761	982	1,137	1,198	711	1,434	1,896	1,904	2,010	2,190

1. At beginning of year.

Source: Statistical Yearbook of the SFRY.

TABLE V. PRICES

1960 = 100.

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1964				1965				1966			
											I	II	III	IV	I	II	III	IV	I	II	III	IV
											<b>PRODUCER PRICES:</b>											
1. Manufactured goods .....	97	98	98	100	104	104	105	110	127	141	107	109	111	114	118	120	131	138	139	149	141	142
2. Capital goods .....	101	99	99	100	101	101	101	103	110	116	102	102	103	104	107	108	111	114	115	115	115	117
3. Intermediate goods and semi-manufactures .....	94	96	97	100	106	105	105	110	127	142	108	109	111	113	116	118	133	141	141	141	143	143
4. Consumer goods .....	99	99	99	100	101	103	105	111	130	145	107	109	113	117	122	125	134	140	143	144	146	148
5. Agricultural products .....	95	91	92	100	113	133	146	181	258	304	160	174	193	195	219	237	260	274	319	329	312	300
6. Cereals .....	108	104	97	100	113	133	145	190	255	265	151	163	206	192	198	206	264	264	264	280	273	255
7. Livestock <sup>1</sup> .....	84	90	91	100	112	126	144	186	245	309	157	173	199	204	226	238	252	261	301	314	313	310
<b>COST OF LIVING INDEX<sup>2</sup>:</b>																						
8. Total .....	85	90	91	100	108	119	126	141	190	233	133	139	145	152	161	173	204	223	233	238	233	239
of which:																						
9. Food .....	90	92	93	100	110	127	139	160	223	266	147	158	166	175	187	208	241	257	272	280	266	272
10. Clothing and footwear .....	97	101	100	100	103	109	111	117	145	182	114	116	118	122	128	133	152	168	174	180	185	190
11. Rent .....	37	43	47	100	103	108	115	122	160	208	121	122	124	124	125	126	181	207	207	208	209	209
12. Fuel and lighting .....	66	69	76	100	107	110	112	134	207	251	123	120	132	161	180	166	226	257	253	246	250	256

1. For slaughter.

2. For four-member family of worker.

Source: Indeks.



TABLE VI. PUBLIC AUTHORITIES' REVENUE AND EXPENDITURE <sup>1</sup>  
 COMBINED PUBLIC AUTHORITIES' BUDGET

*Billions of old dinars.*

	1960	1961	1962	1963	1964	1965	1966
<b>REVENUE:</b>							
1. Tax on incomes of enterprises in the socialised sector .....	236	162	85	58	38	1	—
2. Tax on personal incomes of employees in the socialised sector .	146	196	211	219	304	356	447
3. Turnover tax .....	212	262	301	381	449	537	652
4. Tax on personal incomes of members of the liberal professions, farmers in the private sector, local taxation, surtax, etc. ....	132	150	149	146	176	136	201
5. Customs and other duties .....	61	146	205	239	359	463	285
6. Total .....	787	916	951	1,043	1,326	1,493	1,585
<b>EXPENDITURE:</b>							
7. Administration, justice and defence .....	329	383	649	626	743	945	971
8. Culture and education* .....	81	9	8	7	8	325	390
9. Public health .....	44	40	21	21	24	37	50
10. Communal activities .....	12	13	9	10	11	28	34
11. Investment .....	29	34	25	24	28	98	98
12. Grants to the economy .....	50	138	136	141	164	29	32
13. Miscellaneous .....	180	264	143	159	239	83	71
14. Total .....	725	881	991	988	1,217	1,545	1,646

1. This table conforms to the new method of presenting budgetary revenue and expenditure adopted since 1966, which includes the budget reserve funds and special budgetary reserves. The figures for revenue and expenditure cover the period 1st January-31st December each year.

2. From 1961 to 1965 part of the expenditure on culture and education is included in item 12 instead of item 8.

Source: Yugoslav authorities, Statisticki bilten Sluzbe drustvenog knjigovodstva.

TABLE VII. FOREIGN TRADE

Million dollars.

	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966
1. Total imports cif .....	661	685	687	826	910	888	1,057	1,322	1,287	1,575
2. Total exports fob .....	395	441	477	566	569	691	790	892	1,091	1,220
3. Trade deficit .....	266	244	210	260	341	197	267	430	196	355
4. Volume of imports (1953 = 100) .....	151	163	165	201	220	213	246	295	260	315
5. Volume of exports (1953 = 100) .....	177	200	218	254	264	310	345	363	412	448
6. Import prices (1953 = 100) .....	108	103	101	102	103	106	109	113	120	121
7. Export prices (1953 = 100) .....	118	117	113	115	116	120	123	130	141	145
8. Terms of trade (1953 = 100) .....	109	113	111	111	110	111	113	114	117	120
IMPORTS, BY AREA:										
9. Western Europe .....	274	287	289	396	456	387	433	541	527	518
10. North America .....	177	136	142	93	185	189	205	188	204	212
11. Eastern Europe and USSR .....	143	194	170	212	169	189	241	377	371	637
12. Rest of world .....	67	68	86	125	100	123	178	216	185	208
13. Total .....	661	685	687	826	910	888	1,057	1,322	1,287	1,575
EXPORTS, BY AREA:										
14. Western Europe .....	204	222	218	255	260	305	381	383	373	476
15. North America .....	34	34	34	40	43	55	52	57	77	85
16. Eastern Europe and USSR .....	105	123	147	182	176	167	211	308	483	479
17. Rest of world .....	52	62	78	89	90	164	146	144	158	180
18. Total .....	395	441	477	566	569	691	790	892	1,091	1,220

Source: Statistical Yearbook of the SFRY.

TABLE VIII. IMPORTS AND EXPORTS BY COMMODITY GROUPS

Million dollars.

SITC SECTIONS		1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	
IMPORTS:												
0 and 1	1.	Food, drink and tobacco	148	132	133	76	121	131	201	167	189	234
		of which: 2. Cereals and cereal preparations	100	66	86	21	65	67	124	69	97	109
	2	3. Raw materials	97	84	96	118	130	132	159	211	216	212
		of which: 4. Textile fibres and waste	55	53	55	60	68	69	88	115	117	107
	3	5. Mineral fuels	65	41	45	45	40	48	47	66	72	82
	5	6. Chemicals	48	67	75	71	63	78	111	138	118	150
	6	7. Semi-manufactures	104	108	108	172	185	163	187	277	279	370
		of which: 8. Base metals	52	52	48	87	93	90	135	150	154	192
7 and 8	9.	Finished manufactures	183	236	212	332	355	321	341	447	399	514
		of which: 10. Machinery	122	160	149	240	247	245	266	336	277	349
		Transport equipment	46	56	43	64	77	48	41	62	78	110
4 and 9	11.	Other	16	17	18	12	16	15	11	16	14	10
	12.	Total	661	685	687	826	910	888	1,057	1,322	1287	1,575
EXPORTS:												
0 and 1	13.	Food, drink and tobacco	124	168	149	191	191	191	243	265	280	296
		of which: 14. Live animals and meat	46	43	62	78	98	104	124	147	169	164
		Cereals and cereal preparations	4	39	21	36	20	3	6	2	6	3
	2	15. Raw materials	82	75	76	88	85	96	108	115	110	108
		of which: 16. Wood	48	41	39	42	41	49	55	56	53	54
	5	17. Chemicals	19	15	16	23	20	21	26	38	59	70
	6	18. Semi-manufactures	108	102	118	134	129	156	169	205	248	282
		of which: 19. Base metals	57	57	61	76	70	84	78	89	108	128
7 and 8	20.	Finished manufactures	49	71	112	123	136	208	227	256	383	443
		of which: 21. Machinery	17	18	39	51	53	71	81	87	123	149
		22. Ships	8	25	37	19	28	71	55	40	78	88
3, 4 and 9	23.	Other	13	10	6	7	8	19	17	14	12	21
	24.	Total	395	441	477	566	569	691	790	892	1,092	1,220

Source: Statistical Yearbooks of the SFRY, OECD Foreign Trade Bulletins.

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