OECD
ECONOMIC SURVEYS

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

YUGOSLAVIA

ORGANISATION DE COOPÉRATION ET DE DÉVELOPPEMENT ÉCONOMIQUES

APRIL 1975

BASIC STATISTICS OF YUGOSLAVIA

THE LAND AND THE PEOPLE

Total area (1 000 sq.km)	256
Agricultural area (1 000 sq.km)	148
Forest area (1 000 sq.km)	89
Population (30.6.1973, 1 000)	20 956
Republics:	
Serbia	8 612
Croatia	4 469
Bosnia and Herzegovinia	3 872
Slovenia	1 753
Macedonia	1 705
Montenegro	545
Major cities (31.3.1971 census):	
Belgrade	1 209
Zagreb	602
Skoplje	389
Sarajevo	292
Ljubljana	258

Net natural increase in population 1964-1973 (1 000), annual average	173
Total paid employment (1974, 1 000)	4 513
of which:	
Industry	1 754
Building	377
Agriculture (social sector)	258
Active population in private agriculture (31.3.1971 census, 1 000)	3 892

PRODUCTION

Gross national product at factor cost (1973, billion dinars)	351.5
Gross national product per head (1973, US $)	990
Gross fixed asset formation:	
1973 (billion dinars)	85.3
1973 (per cent of GNP)	22.9
1969-1973 (per cent of GNP)	25.3

Origin of GDP in 1973 (per cent of GDP):	
Agriculture, forestry and fishing	18.1
Mining and manufacturing	32.8
Building	10.3
Other	38.8

GOVERNMENT

Collective consumption (1973, per cent of GDP)	14.9
Federal current revenue (1973, per cent of GDP)	8.8
General government revenue, including social security (1973, per cent of GDP)	31.8

FOREIGN TRADE

	Structure of exports in 1974 (per cent)	Structure of imports in 1974 (per cent)
Food, drinks, tobacco	10.8	8.8
Raw materials and semi-finished goods	52.3	60.6
Finished manufactures	36.9	30.6

THE CURRENCY

Monetary unit: Dinar	
Currency units per US $:	17

NOTE An international comparison of certain basic statistics is given in an annex table.

OECD ECONOMIC SURVEYS

YUGOSLAVIA

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The Organisation for Economic Co-operation and Development (OECD) was set up under a Convention signed in Paris on 14th December, 1960, which provides that the OECD shall promote policies designed:

- *to achieve the highest sustainable economic growth and employment and a rising standard of living in Member countries, while maintaining financial stability, and thus to contribute to the development of the world economy;*
- *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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The Socialist Federal Republic of Yugoslavia is associated in certain work of the OECD, particularly that of the Economic and Development Review Committee.

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The annual review of Yugoslavia
by the OECD Economic and Development Review Committee
took place on 12th March, 1975
The present Survey has been updated subsequently.

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INTRODUCTION

Following two years of sluggish growth the performance of the Yugoslav economy in terms of output and employment was very satisfactory in 1974. Due to strong domestic demand and assisted by an expansionary policy stance the rise of the social product accelerated from 4½ per cent in 1973 to 8 per cent in 1974 a rate of growth unmatched in the OECD area. On the other hand, policy was not successful in reversing the accelerating price trend as the rate of inflation increased from the already high levels of 1973. The balance of payments was heavily affected by the higher oil prices, slack demand abroad and resurgent demand domestically. Consequently, after two years of moderate surplus, the current account moved sharply into deficit. The official 1975 outlook is for continued rapid growth of productive investment but some moderation in total aggregate domestic demand. Some progress is expected in reducing inflation and the authorities are counting on a shift of resources to exports and to import substitution and hence some improvement in the foreign balance.

Because of its importance in the recent conjunctural upswing, the policy background is presented at the beginning of present Survey. Part II examines the actual response of the economy to the policy shift, focussing primarily on short-term issues and problems. Prospects for 1975 and policy considerations are discussed in Part III.

While the present Survey concentrates on short-term, conjunctural issues, the longer term context should be kept in mind. As Yugoslavia is a less developed country, the growth process has high priority and is an important feature of the economy. Development aims, which have been embodied in a series of medium term plans, the current one running from 1971-1975 (see targets in Table 1), have involved continuing rapid changes in the structure of output, expansion of the capital stock, improved technology, and major transformation of the patterns of labour use. At the same time, there have been important institutional changes. A new constitution, officially promulgated in February of 1974, seeks to expand and enhance the role of the working collectives in the political and economic decision-making process. It is against this background of rapid economic and social changes that the current issues and problems of the Yugoslav economy must be reviewed.

I THE POLICY BACKGROUND: AIMS AND METHODS

Over the last three years economic activity in Yugoslavia has moved counter to the trends in most other countries. Beginning late in 1971 demand and real growth slackened and remained relatively weak through the next two years, while this was a period of near boom conditions in most OECD countries. Late in 1973, however, just as the international boom began to falter, demand and output accelerated strongly and, in 1974, resulted in an estimated 7 per cent volume increase in social product. These counter-trend developments were the result of policies pursued rather than of autonomous domestic trends in the economy.

The reduction of inflation and the improvement of the foreign balance were primary aims in both 1972 and 1973. In addition a major intention of policy was to resolve the " problem of illiquidity ", which involved debt entanglements and lack of financial discipline among enterprises and government units (see p. 9 below). The policies pursued generally involved controls on enterprise and government spending, self-financing requirements, advance deposits on investment projects, etc. but some direct wage controls were also in force during part of the period. These policies probably were largely responsible for the rather sluggish (by Yugoslav standards) real growth of non-farm output in 1972 and 1973 (Table 1). Employment, which had grown by an average of over four per cent annually from 1968 to 1971, increased by only 2.3 per cent in 1973. Inflation as measured by the social product deflator, dropped in 1972 but rose again in 1973 (Table 6), while the increase in the cost of living index was larger in each successive year. However, a major success was achieved with the balance of payments, with a turn-around in the current account equal to about 6 per cent of social product and surpluses recorded in both 1972 and 1973.

Partly because of the lessened constraint of the balance of payments position, but perhaps also due to the unsatisfactory results with restrictive measures in combatting inflation, policy began to ease in the second half of 1973. This shift was confirmed explicitly in the Policy Resolution for 1974, which called for a considerable acceleration of real growth. Particularly emphasized was the need to expand investment in " productive " assets. Within the enterprise sector the growth of investment would be especially concentrated in priority sectors (energy, agriculture, basic industrial materials, and transportation) as it was felt that lagging growth in these sectors had been a basic factor of structural imbalance, aggravating inflation and the deficit in foreign trade. It was also expected that personal consumption would rise more rapidly, though less so than investment and social product. On the other hand, the resolution called for restraining the growth of real public consumption, with a maximum real growth allowable of one percentage point less than that of social product. This target reflected the general aim of increasing the share of social product at the disposal of the enterprises and permitting, in particular, a larger growth of enterprise investment.

Price stabilisation policy, perhaps somewhat de-emphasized, concentrated more on cost reduction and improved competition rather than general demand restrictions. It was felt that a more rapid expansion of production might provide a better basis for price stability over the longer run, since the supply potential would be increased and productivity gains would be larger. Probably for this reason the projected increase in employment was a relatively modest 3 per cent, with a 4 per cent gain in productivity in the socialist sector[1]. Real wages, stagnant or falling in most of 1972 and 1973 were postulated to increase in line with productivity gains, which on forecast price trends implied an acceleration of nominal wage payments. On the other hand, the reduced growth of public consumption was to be accompanied by lower direct and especially indirect taxes, thereby dampening price pressure. Import liberalization, including reduction of customs duties on consumer items, as well as stockbuilding of imported food and other basic goods, would also serve to stabilize prices. Nevertheless, there was no expectation of a substantial reduction in inflation. The goal was instead to prevent a further acceleration of inflation (the social product deflator in 1973 was approximately 15 per cent) and to " provide a basis " for its reduction in the future.

1 A 3 per cent increase in employment would absorb the new entries to the labour force as well as some expected net return flow of workers from abroad. The resolution mentioned that a larger increase in employment would be desirable, but only in the framework of a correspondingly larger increase in output.

In regard to the foreign balance some deterioration of the current account was assumed. As large stock accumulations, particularly of foodstuffs, were anticipated, the volume of goods and services imports was forecast to grow more rapidly than exports. The increased availabilities of imports, resulting from liberalisation and from larger allocations of foreign exchange, would simultaneously permit more rapid rates of growth of real domestic demand and contribute to price stability. The target for exports of goods and services, established before the weakening trends abroad had become manifest, was to achieve a slightly higher growth in real terms than in 1973. Exports would benefit from special credit conditions, a system of customs rebates for exported goods, and foreign exchange retention quotas (enabling the exporters to dispose freely of part of the exchange earned). Foreign currency reserves had reached a level of over $ US 1.7 billion in 1973 and with improving lines of long-term financing abroad it was felt that a moderate deficit would pose no important difficulties in terms of external liquidity.

This policy position was not substantially changed when it became clear that the deficit would be much larger than expected at the time of the formulation of the policy resolution for 1974. Yugoslavia is not as dependent on imported oil as many countries and consequently the impact of the oil crisis was somewhat less serious. However, it was thought unavoidable that the oil price rise combined with the poorer prospect for tourism, the deteriorating employment situation for workers abroad, and reduced markets for Yugoslav exports (over 70 per cent of Yugoslav current account receipts originate in OECD countries) would entail a substantial deficit, which would be further heightened by the expected acceleration of demand in Yugoslavia. Nevertheless, given the cushioning provided by the considerable foreign exchange reserves, it was felt that growth should have priority in 1974.

The specific measures taken to support the envisaged acceleration of growth were generally of a selective rather than aggregative nature. With regard to personal consumption, the primary immediate concern was the living standards of the lower income workers. The reductions in indirect taxes and customs duties on basic consumer goods would—through lower prices—serve for strengthening real incomes and consumption. Other diverse measures were taken on the republic and local levels[2]. In view of the high rates of inflation, however, these measures were probably of minor importance. On the other hand, the specific measures undertaken with regard to investment were more extensive and important. Enacted beginning in the summer of 1973, many of the measures consisted of relaxations of financial restrictions imposed earlier (especially in connection with the illiquidity problem), such as minimum self-financing proportions for working capital needs, requirements for deposits when initiating investment projects, and large obligatory dinar deposits when obtaining credits abroad[3]. Many of the incentives to investment applied only for priority sectors, and this selective approach was even more pronounced in 1974. The specific measures taken included reductions in duties on imported investment goods for the priority sectors, provisions for remaining duties to be paid in instalments and differential credit measures[4].

While most specific policy measures were designed to promote investments in

2 Besides reductions in local taxes, efforts were made to restrain prices of community services, through increased subsidies where necessary. It appears that some republics provided tax relief for enterprises with relatively low wage levels and increased minimum wages.

3 For details see Annex of Policy Measures. Some of the measures would improve the financial position of enterprises generally. As such, they could contribute to wage income and hence consumption as well as to investment. By far the greatest weight, however, was on investment incentives.

4 For example, in the spring of 1974 deposits on investments in electric energy production were exempted from reserve requirements.

priority sectors, it seems that the general expansionary policy orientation, notably reflected in the 1974 Policy Resolution, constituted perhaps the most important overall stimulus to spending. It is a commonly accepted view in Yugoslavia that there is a major element of pent-up demand in regard to expenditures of enterprises (and of local governments). This means that policy often consists of tightening or relaxing restraints rather than more active support to demand. It also means that the enterprise sector is relatively sensitive to perceived shifts in policy attitudes, apart from the promulgation of specific measures. The unequivocably expansionary tone of the 1974 Policy Resolution, in contrast to the predominantly restrictive stance of the resolutions of 1972 and 1973, was a clear example of such a shift.

In Yugoslavia taxation and government expenditure policies are concerned with the general level of resources utilised in the public sector rather than with aggregate demand management. Budget deficits and surpluses are not supposed to arise except under exceptional circumstances[5]. Even aside from these constraints of balanced budgets, the federal Government is not well equipped with instruments of demand management and the share of its expenditures in social product is relatively small (about 10 per cent). Furthermore, federal revenues, consisting primarily of customs duties and transfers from republics, are well-suited neither for discretionary changes nor as automatic stabilisers. On the other hand, policy-makers have over the last few years been concerned with restraining the growth of public sector consumption; as mentioned, the goal for 1974 was that the real growth of this demand component should be no more than one percentage point less than that of social product. However, about two-thirds of all public spending takes place on the republic and local levels. While administrative ceilings on non-federal spending have been utilized in the past, more recently the emphasis has been on the promotion of " social contracts " among the republics, local administration, and enterprise representatives which would commit public bodies to general guidelines relative to taxation and expenditures. Such agreements were in fact established for 1974 and their general content was that of limiting the growth of tax revenues to less than that of nominal social product, particularly by selective reductions of sales tax rates. Nevertheless, these guidelines were necessarily rather general, if only because government expenditures as well as the growth of social product are difficult to forecast, especially under conditions of high and accelerating inflation.

Since 1971 the general principle guiding monetary policy is that it should be more or less " neutral " with respect to the actual trend of aggregate nominal demand. The rate of growth of the money supply could be kept marginally below that of nominal social product in cases of excess aggregate demand, and vice versa in cases of inadequate demand; but monetary policy should not serve as the primary instrument of adjustment. However, this principle of monetary neutrality or monetary accommodation was not effectively implemented in 1972 and 1973 (see OECD Survey of April 1974), when monetary growth was extremely large. Partly for this reason, money supply was projected to expand by about 22 per cent in 1974, roughly corresponding to the lower end of the range of nominal growth of social product expected by the National Bank.

In addition to these specific, short-term targets of monetary control, considerable reforms in the instruments of monetary policy were intended in 1974. As discussed more thoroughly in last year's Survey, extensive National Bank obligations for selective crediting (both directly and through rediscount credits) have in the past been a hindrance to adequate quantitative control of the money supply, as they reduced

5 Discrepancies do of course arise, which means that fiscal effects on aggregate demand may be important. Also, it should be noted that budget figures sometimes include as current revenues items such as proceeds from bond issues, which in an economic classification should, of course, be considered as deficit financing items.

the flexibility of the central bank to meet the changed conditions[6]. For this reason, as well as the general commitment to more decentralization of bank authority, it was intended that in 1974 the major portion of the tasks of selective crediting be transferred to the responsibility of the commercial banks and formalised on the basis of interbank agreements. This would enable the National Bank to concentrate more on the overall quantitative control of the money supply and to significantly reduce reserve requirements, since less primary or reserve money would be created through National Bank operations. Given both the importance and the nature of these reform projects it is perhaps not surprising that up to now only a portion of these proposals have been implemented (see further below).

II DEVELOPMENTS IN 1974

Stronger Trends in Demand and Output

Beginning in the fall of 1973 real domestic demand and output sharply accelerated, resulting in rates of growth in 1974 higher than those projected (Table 1 and Diagram 1). Personal consumption and particularly investment expenditures showed very large gains, while public consumption probably grew at roughly the same rate as social product. Export performance, on the other hand, fell short of expectations, not surprising in view of developments in most OECD countries. Imports, affected by strong domestic demand and policies to build up stocks of some imported basic commodities, continued to expand by rather large amounts. These factors, combined with an unfavourable terms of trade shift, resulted in a sharp movement into current account deficit in 1974. Inflation accelerated somewhat even though agricultural prices were more stable than in 1973. Foreign trade prices were a major factor behind the acceleration. For this reason the Yugoslav authorities feel that the more serious drawback to the much stronger demand and employment levels of 1974 was the sharp worsening of the balance of payments. Nevertheless, the overall economic performance is considered to have been rather satisfactory, certainly more so than in 1973.

One of the most salient features of the strong demand situation in 1974 was the boom in investment expenditures (Table 1 and Diagram 2). Restrictions on enterprise finance taken in 1972 and early 1973 (to resolve the problem of illiquidity) resulted in less willingness and ability of enterprises to carry out investment and other projects[7]. At the same time a great deal of credit and monetary growth took place, in part due to the unexpected surpluses on foreign account but in part also to credit operations to clear up the tangle of informal debts among enterprises and some government bodies. The combination of expenditure restrictions and monetary relaxation resulted in large increases in enterprise liquidity and gross savings (Table 2). As a result, the financial deficit of the enterprise sector decreased absolutely in both 1972 and 1973 in spite of the rapid rise in nominal product.

6 This was an important factor in the very large growth of the money supply in 1972 and 1973, as it meant that National Bank credit could not be easily reduced when it became clear that the unexpected balance of payments surplus was resulting in excessive creation of primary money.

7 The illiquidity problem was briefly discussed in the Annual Surveys of 1973 and 1974. In essence, the problem arose because of the strength of underlying demand and expenditure trends, low entrepreneurial risks of bankruptcy, and the expectation that tight monetary conditions would not be maintained for protracted periods. Thus expenditures were reduced only grudgingly, even when funding was not available. This factor tended to increase the time lags and dilute the effects of restrictive monetary policy on demand conditions.

Table 1 Output and Expenditure

	Standardised methodology	Yugoslav methodology[1]								
	1972	1972	1973	1971	1972	1973	1974[3]	1974 Plan	1975 Plan	1971-75 Plan
	Billions of dinars at current prices			*Percentage change, volume*						
Expenditure										
Private consumption	152	137	169	9	5	3	8	5½	5	7
Collective consumption	45	21	27	8	3½	4½	7	5		6½
Gross fixed investment	74	74	85	6½	3½	2½	9	7½[4]	6½	7[5]
Final domestic demand	271	232	281	7½	4½	3	8	—	5½	—
Stockbuilding[2]	18	21	40	5½	−3½	4	½	—	1	—
Foreign balance[2]	−6	−8	−15	−4½	4	−1½		—		—
Exports, goods and services	59	56	72	6½	30½	8½	1[6]	9–10[6]	10[6]	—
Imports, goods and services	65	64	87	11½	8½	13	14[6]	12[6]	4[6]	—
GDP, market prices	283									
Social product, market prices	—	245	306	9	4½	5½	8	6[7]	6	7½
Output										
GDP, factor costs	260									
Social product, market prices	—	245	306	9	4½	5½	8	6[7]	6	7½
Socialist sector	—	203	250	10	5½	4½	..	7	—	8
Private sector	—	42	56	4½	½	8½	..	—	—	—
Agriculture, forestry and fishing	43	41	56	8	−1	9	3	3	2½	3½
Non-agricultural output	217	204	250	9	6	4½	9	—	—	—
Industry and mining	91	88	110	11	7	6½	11	8	7–7½	8

1 Yugoslav methodology, based on the material product approach of national income accounting, excludes government wages and salaries, the liberal professions, and certain other services from social product. This is a particularly important consideration in regard to public consumption, which includes in this system only material goods and some services purchased from other sectors. As indicated, gross domestic product in 1972 was about 14 per cent greater than social product.

2 Figures in the first three columns show the absolute level of stockbuilding (calculated as a residual) and the foreign balance. Figures in the remaining columns indicate changes in stockbuilding and foreign balance as a percentage of social product of the previous year (due to incomplete data, in 1974 the foreign balance and stockbuilding are combined). These figures plus the percentage change in final domestic demand approximately equal the percentage change in social product. In practice, however, divergencies arise because the change in final domestic demand is not expressed as a percentage of social product.

3 Provisional figures.

4 Target figure for economic investments in the socialist sector. As such it would not include housing investment or any private investment.

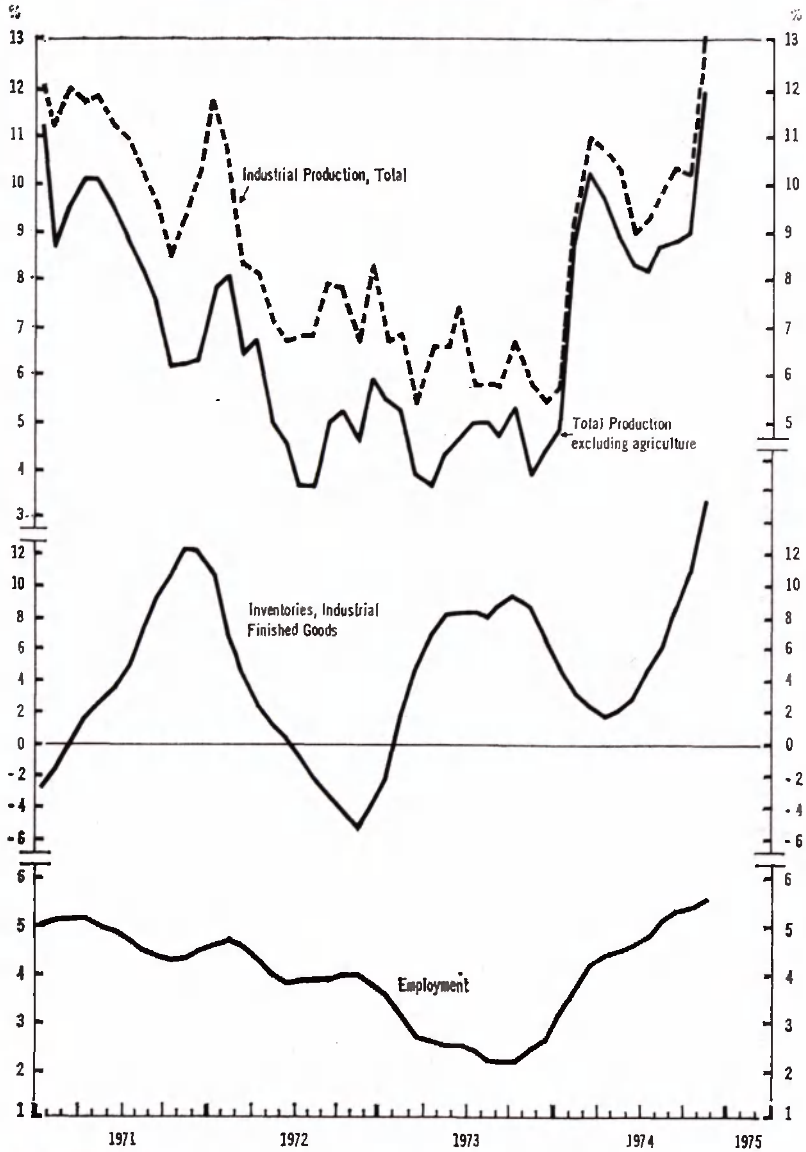
5 Figure includes investment in both fixed assets and inventories.

6 Merchandise only.

7 Cited as a minimum figure.

Source: Direct communication to the OECD.

Diagram 1 **Output and Employment**
3-month moving averages; increase on 12 months earlier



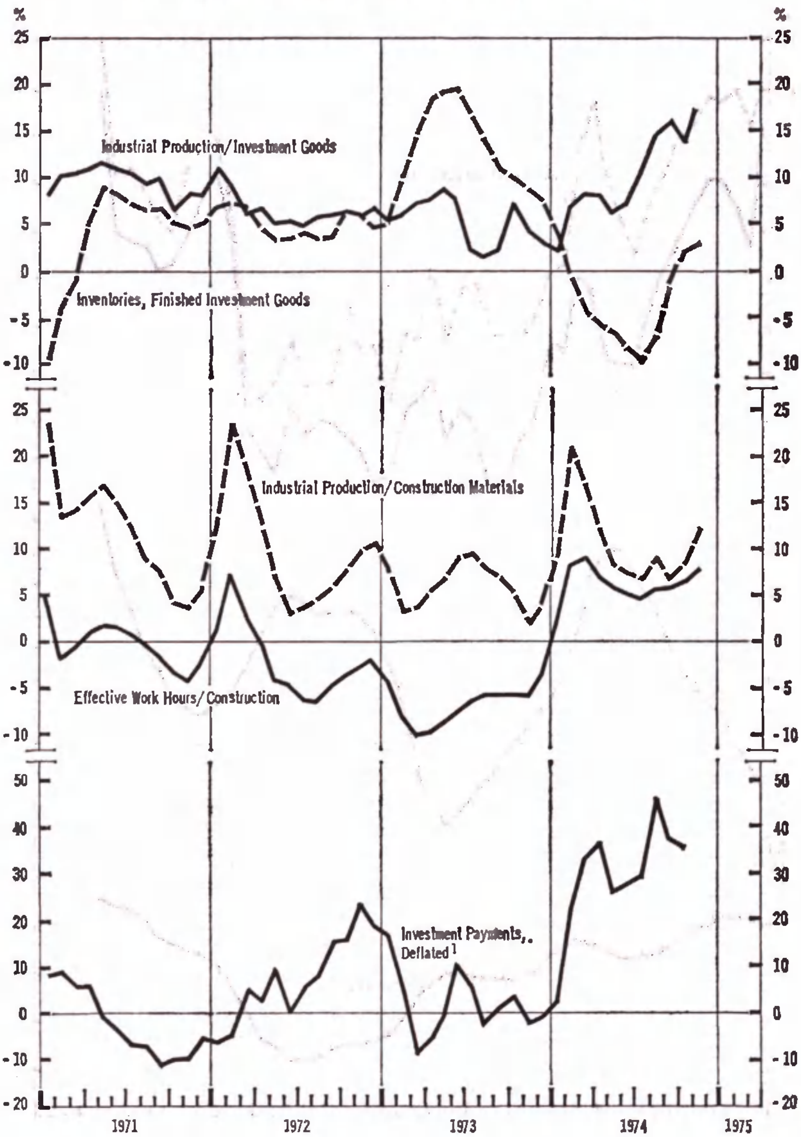
Source: **SZZS, *Indeks.***

As noticed earlier, beginning in the second half of 1973 various measures were taken to ease the financial restrictions on enterprises and to stimulate investments in priority sectors. With these measures and the expansionary orientation of the 1974 Policy Resolution, the large liquidity built up earlier was quickly mobilized, resulting in a wave of investment expenditures[8]. Residential investment, which in

8 The stimulus to investment provided through the expansionary general reorientation of policy seems to have been even more important than the specific measures aimed at priority sector investments. In fact, partial year investment payments figures do not show any marked change in sectoral capital spending shares in 1974.

Diagram 2 **Indicators of Investment**

3-month moving averages; increase on 12 months earlier



1 Payments for investments in the socialized sector deflated by index of producer prices of investment goods. Because of lags, payments figures do not always closely reflect effective investment.

Source: SZZS, *Indeks.*

the socialist sector is largely dependent on enterprise decisions also accelerated. At the same time, however, monetary growth slowed markedly, due particularly to the sudden emergence of a deficit in the balance of payments. Consequently, the trends of enterprise expenditures relative to monetary growth in 1972 and 1973 were reversed in 1974, which meant stagnating or declining monetary holdings of the enterprise sector during much of 1974. The swing of the balance of payments from surplus

Table 2 **Enterprise Monetary Holdings and Non-Financial Transactions**

	1970	1971	1972	1973	1974	1973 Mar.	1973 June	1973 Sept.	1973 Dec.	1974 Mar.	1974 June	1974 Sept.	1974 Dec.
	Percentage annual increase					*Billions of dinars (end of period)*							
Enterprise deposit money	10.6	8.8	60.0	75.6	21.5	14.5	18.1	20.8	22.8	23.0	23.3	24.7	27.7
Total enterprise monetary holdings excluding blocked deposits	19.2	13.6	12.8	45.3	20.5	39.0	43.6	47.3	51.2	51.8	53.9	57.2	61.7
	Billions of dinars												
Gross savings	29.4	35.8	40.2	58.0									
Real investments	45.3	54.1	54.6	69.2									
Net savings	–15.9	–18.2	–14.4	–11.2									

Source: SDK, *Statisticki Bilten;* Narodna Banka, *Godisnji Izvestaj*, 1973.

Table 3 **Employment and Labour Force**
Thousands of persons

	1961	1967	1968	1969	1970	1971	1972	1973	1974	Average Annual Increase 1967-1973	Average annual increase 1961-1967
Paid employment, total[1]	3 242	3 561	3 587	3 708	3 850	4 034	4 210	4 306	4 489[2]	124	
Unemployment, registered[1]	191	269	311	331	320	291	315	382	441[2]		
Unemployed, as per cent of employment plus unemployed	5.6	7.0	8.0	8.2	7.7	6.7	7.0	8.1	8.9[2]		
Total population	18 549					20 523					197
Active population	9 025					10 131					111
Employed abroad[3]						589					
Yugoslavs employed in west Germany[4]	—	96	119	265	423	478	475	535	470	73	

1 Annual average.
2 Average Jan.-Sept. 1974.
3 Those active before leaving Yugoslavia.
4 September figures.

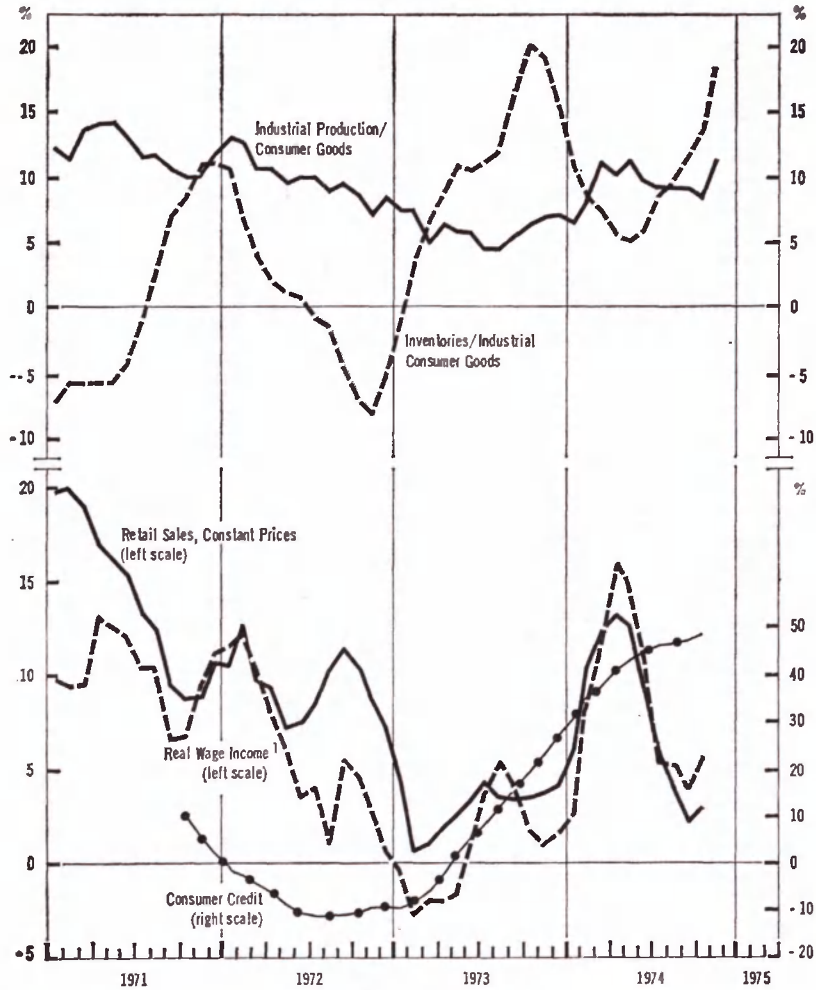
Source: SZZS, *Statisticki Godisnjak*, and Bundesanstalt Für Arbeit.

to deficit and the higher level of current and investment outlays may have resulted in lower gross financial savings and a widening of the financial deficit of the enterprise sector[9]. There were also reports which indicate possible renewed liquidity difficulties, e.g., a lengthening of lags between deliveries and payments. Nevertheless, current indicators suggest that investment activity remained high through 1974.

Personal consumption shared in the general acceleration of demand activity (see Table 1 and the various indicators of Diagram 3). An important factor was the increase in real incomes after two years of virtual stagnation. Real wages rose

Diagram 3 **Indicators of Consumption**

3-month moving averages; increase on 12 months earlier



1 Wage payments, socialist sector, deflated by index of consumer prices.

Source: SZZS, *Indeks*, and SDK, *Statisticki Bilten.*

9 Flow of funds figures for 1974 are not available. However, in the first 10 months of 1974 enterprise outlays on investments, wages, and taxes increased by 37.7 per cent over the same period of 1973 as compared to a 30.6 per cent increase in net realised income. The comparable percentages for the first 10 months of 1973 over the same period of 1972 were 23.5 per cent and 23.4 per cent.

very significantly, especially in the first half of 1974 (Diagram 8). Following a partial wage freeze in the first half of 1973, average wage payments accelerated strongly, reflecting the increasing implementation of enterprise income distribution schemes oriented towards real wage increases in line with productivity. Prices, however, lagged behind, due in part to the good agricultural harvests of 1973 and 1974 and perhaps also to the high enterprise liquidity in 1973 (since it meant that there was not as much pressure to increase prices correspondingly). The measures on various governmental levels to selectively reduce sales (" turnover ") taxes, particularly on products important to basic living standards, also contributed to the increase in real wages. As a result real wages in the first seven months of 1974 were on average 7½ per cent higher than in the same period of 1973[10]. In addition, the generally buoyant demand conditions permitted employment to rise by almost 5 per cent in 1974 after 2 per cent in 1973, adding further momentum to wage income (Diagram 3) and hence to consumer demand. Finally, consumer spending, especially on durables, was strengthened by a sharp increase in consumer credit during the year (see Diagram 3; figures for 10 months indicate that credit sales accounted for about 12½ per cent of the increase in retail sales in the socialist sector in 1974, as compared to about 6½ per cent of a much smaller increase in 1973). As only minor changes were made in term conditions, the credit expansion did not only reflect the increased availability of funds and higher incomes but was apparently also due to stronger demand, in response to increasingly negative real interest rates and inflationary expectations.

However, real consumer expenditures appeared to have decelerated or declined late in 1974, as indicated by slackening real retail sales and the strong increase in industrial inventories of finished consumer goods (Diagram 3). Again an important reason was the movement in real incomes and wages, which stagnated or declined in the second half of the year. This was partly a result of some reduction in the rate of increase of wages and other income. More important, however, was the acceleration in prices, particularly industrial prices, reflecting surging imports costs and lagged effects from the earlier wage increases. Consumer demand, especially for durables may also have been affected by the deceleration of remittances from abroad and the psychological effects of deteriorating foreign employment possibilities and the actual return of many workers since the spring[11]. Automobile sales, as in many OECD countries, probably were reduced by rising fuel costs and uncertainties, and sizeable undesired inventories developed in the course of the year.

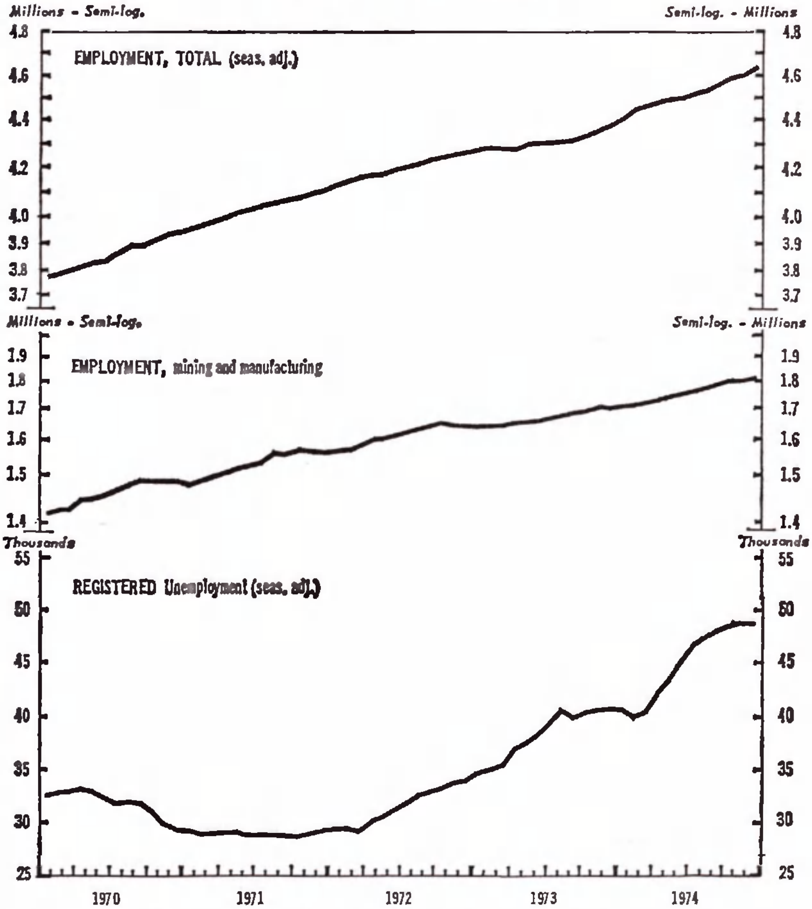
The marked revival of demand and output was reflected in higher employment rather than faster productivity growth. Payroll employment in the quarter ending in October was about 230 800 over that of a year earlier, as compared to the average natural increase in the active population of approximately 110 000. This 5 per cent

10 It is very possible that the increase in real wages during this period may even have been higher, mainly because the increase in food prices may not actually have been as high as official figures suggest (at the end of November they were 16 per cent above a year earlier). Meat prices, for example, while officially established by the state, came under pressure in private sales because the Government was not able to purchase the total quantities available. Reportedly, many other prices in the private " peasant " markets remained virtually stable during much of the year.

11 Remittances grew by 35 per cent and 45 per cent in 1972 and 1973 respectively, while partial figures indicate an increase of less than 20 per cent in 1974. These remittances comprised over 10 per cent of total personal income in 1972 and certainly a large share in 1973. (Total income here referred to includes estimates of consumption in kind as well as monetary earnings and social security payments). Source: *Statisticki Godisnjak Jugoslavije*, 1974, p. 316. However, the marginal propensity to consume is almost certainly less for income derived from remittances than that derived from domestic sources, which means that the deceleration in income from this source has a lesser impact on consumer expenditures than would be the case for a similar movement in domestically earned incomes. This has been brought out in studies at the Ekonomski Institut, Zagreb (*Aktuelni Problemi Privrednih Kretanja i Ekonomske Politike Jugoslavije*, 1974, ed. Dragomir Vojnic, Informator, Zagreb, 1974).

increase in employment (Diagram 4) meant that the growth of productivity in the socialist sector was probably no more than 3 per cent (vs. the 4 per cent goal for 1974). On the other hand, registered unemployment also rose strongly during the year, reaching 9.1 per cent of the total number of employed and unemployed in October, as compared to 8.0 and 6.9 in October of 1973 and 1972 respectively, when employment growth was much weaker[12]. An important reason for the large increase in unemployment was the deteriorating job situation abroad, as the net return flow of workers from abroad was probably above 30 000 workers in 1974, as compared to net outflow of probably 60 000 or more in 1973[13]. The existence of job opportunities

Diagram 4 **Labour Market**



Source: SZZS, *Indeks;* seasonal adjustments by OECD Secretariat.

12 Employment figures do not include self-employed, which is very large in private agriculture and handicrafts. Consequently, registered unemployment as a percent of the active labour force is less, probably about 4 per cent in 1974. It should also be remembered that as in most developing countries, registered unemployed primarily represent former agricultural workers in search of alternative employment. At the same time, of course, these figures do not reflect the extent of disguised unemployment in the economy.

13 The net return flow registered through the Yugoslav employment offices was only 15 000. However, West German data indicate a net outflow of Yugoslavs of 2 600 in the first quarter of 1974 and over 10 500 in the second quarter. Given also that the number of Yugoslavs employed in that country declined by 45 000 between March and September, a net return flow of over 30 000 from West Germany alone seems likely.

abroad in the past both stimulated and absorbed the outflow of underemployed labour from agriculture. With the closing of this opportunity in 1974, probably many of those who might otherwise have gone abroad, as well as returnees, searched for employment in Yugoslavia. A further factor was that the increased employment opportunities in 1974 may have stimulated more entries into the labour force (females increased from an average of 49 to 50.3 per cent of the number of unemployed). At the same time, however, increases in unemployment tend to give rise to pressures on the local level for greater employment. As such pressures are more readily accommodated in high growth years, it is possible that this might have given extra impetus to the growth of employment in 1974.

Deteriorating External Balance

Exports provided little support to the expansion of social product in 1974. While no official figure is yet available for the total volume of goods and services exports in 1974 it will probably be the same or somewhat less than the 2½-4½ per cent recorded for merchandise exports[14]. According to official estimates the proportion of the total increase in industrial production which went into exports fell from about one half in 1973 to about one-fifth in 1974. To some extent, exports may have weakened due to diversion to the home market and domestic inflation. However, any such effect is likely to have been minor. The effective devaluation in the course of 1974 of approximately 10 per cent (Diagram 7) probably offset most of the differences between inflation rates in Yugoslavia and abroad[15]. Continuing price differentials and credit conditions have generally favoured exports. Probably the major factor in the relatively low growth of volume exports was weaker demand in major foreign markets. A special factor was the ban on beef imports in the Common Market, which may have caused a loss of foreign exchange earnings of about $ US 100 million from 1973 and might have meant 2-3 percentage points reduction in the volume of exports[16]. The reduced growth of tourist earnings, 12-13 per cent as compared to 36.5 per cent in 1973, probably meant a real decline of 6-8 per cent, as prices in this sector rose about 18 per cent. In view of the rapid rise in transportation prices and the weakening conjunctural situation in most OECD countries the 11 per cent decrease in the number of foreign tourists (based on figures for 9 months) is not surprising and is probably comparable to those experienced by other Mediterranean countries. Volume figures for exports according to markets are not available. Nevertheless, it appears on the basis of the value figures (Table 4) that the growth of exports excluding OECD Europe was very satisfactory in 1974.

The volume of imports of goods and services increased probably by 12-14 per cent in 1974, roughly equivalent to that projected in the 1974 Policy Resolution (14-16 per cent). However, this projection assumed that the current consumption of

14 Any calculations must be very tentative. However, merchandise exports comprise about 70 per cent of total goods and service exports. Tourism, which accounts for about one-half of all service exports, almost certainly declined in real terms by 6-8 per cent. Consequently, even though other service exports apparently increased substantially, the total could hardly have increased more than 4 per cent (and probably was much less).

15 Since July 1973 the exchange rate of the dinar has been determined on a foreign exchange market in Belgrade, in which authorised commercial banks buy and sell. While theoretically the dinar is thus floating, in fact the operations of the National Bank set the limits to the movement of the rates. In October the National Bank allowed a devaluation of about 7 per cent of the dinar relative to the US dollar.

16 Yugoslavia had established a major industry in the production of meat, especially baby beef, for exports to the Common Market. Fresh meat and live animals represented 7.2 per cent of total exports in 1973 and about 90 per cent of these went to the Common Market countries. If the value of meat exports in the first 10 months of 1974 had remained at the level of the same period of 1973, the total value of exports would have been 3 per cent higher. Since meat prices were roughly stable, this would have meant an almost equivalent higher volume.

Table 4 **Export Growth by Areas**
Percentage increase

	1971	1972	1973	1974	Average 1961/62 1971/72	Share in total 1972
Export prices	4.8	6.2	19.6	32.0	4.0	
Value of exports, total	8.1	23.3	27.5	33.4	12.4	100.0
OECD	3.4	36.6	25.9	13.5	12.7	57.0
Non-OECD	13.6	21.0	25.6	57.1	12.2	43.0
West Europe	-1.1	26.6	23.7	4.6	12.6	49.4
France, Italy, West Germany, U.K.	-0.9	23.3	26.9	-0.4	12.6	33.5
Other	16.6	20.7	30.7	56.0	12.3	50.6
Africa	13.6	-20.0	105.7	52.1	4.7	2.4
Asia	-19.4	-5.9	119.6	106.7	3.0	4.0
East Europe	23.0	18.6	16.5	58.7	15.5	35.4
North America	39.2	41.2	36.9	31.8	13.2	8.9

NOTE Export prices and values are based on $ US.
Source: SZZS, *Statisticki Godisnjak* and *Indeks.*

imports would increase by only about 9 per cent in volume terms, the difference being additions to business inventories and federal commodity reserves. While significant additions to stocks were made during the year, especially of foodstuffs[17], the authorities felt that the current consumption of imports during the year was excessive, fueled in part by expectations of inflation and devaluation. In spite of this concern, no major efforts were made to dampen import demand. An import deposit scheme was introduced in August, but only about 5 per cent of the value of total imports was affected. In October 1974 the dinar was devalued and subsequently followed the US dollar depreciations (Diagram 7). In view of the higher rate of inflation, however, the exchange rate movement was relatively minor and in any case could have had only little effect on 1974 imports. However, the increase in imports in 1974 was not significantly greater in proportion to the growth of social product than in the past years[18]. On the other hand, it is clear that little overall progress was made in 1974 in implementing the policy aim of reducing what is considered the excessive imports content of growth.

With regard to oil, however, some success was apparently achieved in this policy aim. Yugoslavia is not as dependent on oil imports as many countries. Large hydroelectric, timber and soft coal resources are found within the country, and domestic oil production is sufficient to supply one-third of current consumption. Consequently, imported oil supplies provide less than 30 per cent of primary fuel requirements, though petrochemical uses are increasingly important. No special measures were taken to reduce oil consumption in 1974 other than substantial price increases on gasoline and other fuels (though customs and sales taxes were actually decreased

17 Surveys indicated that supplies of raw materials, many of which are imported, were generally quite adequate during the year. The volume of inventories of raw materials in industry increased by 18 per cent through October, which seems high in view of the large increases in final goods output and domestic production of raw materials. Food imports in value terms increased by about 118 per cent in the first 10 months of 1974 over the same period of 1973, accounting for 12.9 per cent of the total increase in imports in this period. Virtually all of this increase consisted of crop products. Both 1973 and 1974 were generally good harvest years in Yugoslavia and reportedly a large portion of the substantial import increase went into food reserves.

18 Between 1964 and 1973 the volume of imports increased by 1.75 per cent for every percentage increase in the social product and 1.5 per cent for every percentage increase in non-agricultural social product. In 1974 the corresponding " elasticity of importation " with respect to these two parameters was 1.8 and 1.6.

on some oil products) and the suspension of development of oil driven electric plants[19]. The volume of oil imports decreased by about 20 per cent in 1974, however, this partly reflected some reduction of excessive stocks built up in 1973, when the volume of oil imports almost doubled. More important, consumption of oil is reported to have decreased by 5 per cent in 1974 in spite of the large increase in real output. This would mark a significant change with the past, when oil use increased more rapidly than the social product[20].

After registering surpluses in 1972 and 1973 the current account moved into substantial deficit in 1974, corresponding to over 4½ per cent of social product (Table 5). The more rapid rise in the volume of imports than exports accounted for about 44 per cent of the increase in the trade deficit, the rest resulting from a deterioration in the terms of trade, which earlier had been generally stable (Table 6). Besides oil, the price increases were apparently spread over a wide variety of basic goods, such as cotton, wool, chemicals, copper, etc. The increase in the oil bill was $ US 450-500 million, representing about 22 per cent of the increased trade deficit, but would have been about $ 600 million had there been no decrease in volume. Although the surplus on invisible receipts continued to increase in 1974, there was a sharp deceleration in both tourist earnings and workers' remittances which in 1973 together provided about 35 per cent of total current account receipts. While domestic inflation and the rapid expansion of economic activity in Yugoslavia probably were factors in the large foreign deficit in 1974, much more important were the trends in

Table 5 Balance of Payments
US $ billions

	1970	1971	1972	1973	1974
Trade balance	–1.19	–1.44	–.99	–1.66	–3.74
Exports, fob	1.68	1.82	2.24	2.85	3.80
Imports, cif	2.87	3.25	3.23	4.51	7.54
Services and transfers, net	.85	1.08	1.41	2.14	2.64
Foreign travel, net	.14	.14	.22	.59[1]	.65[1]
Receipts	.28	.36	.46	.63	.70
Expenditures	.13	.22	.24	.04[1]	.05[1]
Transportation and merchandise insurance	.21	.22	.24	.32[1]	.43[1]
Investment income	–.12	–.14	–.16	–.18	–.18
Other services	.08	.06	.06	1.2	1.5
Workers' remittances	.44	.65	.89		
Transfers	.10	.14	.16	.21	.25
Current balance	–.35	–.36	.42	.49	–1.1
Long-term loans, net	.22	.43	.33	.56	..
Short-term non-monetary (inc. errors and omissions)	.06	–.29	–.34	–.26	..
Total non-monetary transactions	–.07	–.22	.41	.79	..
Allocation of SDR's	.03	.02	.02	–	..
Reserve movements	.04	.20	–.43	–.79	..
Net gold and foreign exchange	.12	–.07	–.54	–.66	.35
Bilateral balances	.06	–	–.11	–	.15
National bank and commercial banks' credit, net IMF account, SDR's	–.14	.27	.22	–.13	..

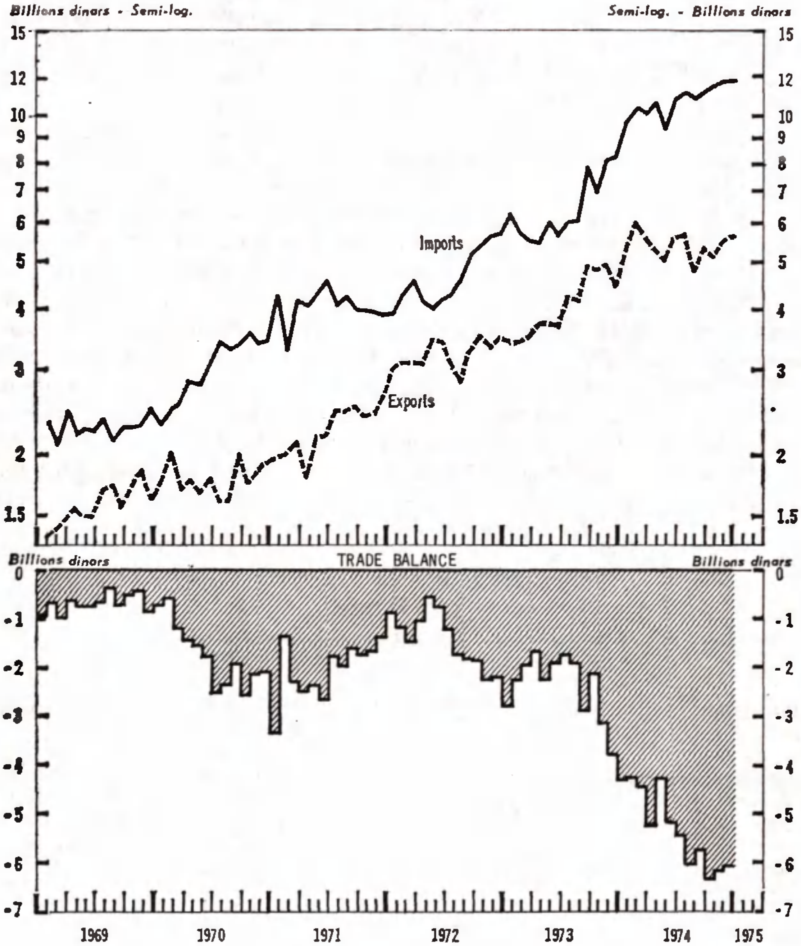
1 Because of changes in the system of recording, figures for 1973 and 1974 are not fully comparable to those of earlier years.

Source: IMF, *Balance of Payments Yearbook*, direct communication to the OECD.

19 Indeed, a more serious problem has been deficiencies in electric energy production. Rationing and other special measures had to be taken in the fall of 1973 to prevent disruptions to production.

20 No longer-term figures for consumption are available, but combined imports and domestic production of oil increased by over 150 per cent between 1964 and 1972, while social product increased by about 52 per cent.

Diagram 5 **Merchandise Trade**



NOTE Yugoslav Trade figures are based on $ US converted to dinars at the conversion factor of 17 dinars per $ US.

Source: OECD, *Main Economic Indicators.*

the world economy. Virtually all of these trends worked against the Yugoslav foreign balance: inflation abroad boosted prices of imports much more than those of exports, while the oil crisis, EEC restrictions, and the slowdown in most OECD countries reduced the exports as well as tourist earnings and remittances.

Thanks in part to the surpluses of 1972 and 1973, there were no immediate difficulties in financing the 1974 deficit. Reserves had reached a level of $ US 1.7 billion or about 5 months current imports by the end of 1973. Yugoslavia had also developed extensive long-term credit lines, so that short-term credits actually declined in 1972 and 1973 (Table 4). Capital account items in the balance of payments for 1974 are not yet available, but $ US 500-600 million was covered by long and medium term loans. Many of these were official loans obtained under favourable terms[21]. Short term credits apparently increased, but did not represent an important share of financing. The remainder of the deficit, approximately $ US 500 million was covered by the reduction of reserves, of which $ US 350 million were convertible currencies. As a result of these reductions and the steep rise of imports, the level of reserves at the end of the year represented only about 2 months current imports, which is the lower limit of the level of reserves desired by the authorities.

Accelerating Inflation

While good results were achieved in expanding real output and employment policy was not successful in preventing a further significant acceleration of inflation in 1974 (Diagram 6 and Table 6). Prices of agricultural goods, largely due to better harvests (but partly also to the meat import restriction in the Common Market), rose less than in 1973, and service prices increased at roughly the same rates. Industrial prices, however, accelerated sharply. The result of the divergent movements was that contrary to other recent years, the cost of living index increased less than the general index of retail prices and the consumption deflator less than the deflators for investment and for social product. Industrial producer prices showed the largest increases, reaching annual rates of over 35 per cent during the year. The price rises were severe in virtually all sectors and categories of output, though not surprisingly the largest were recorded in raw and intermediate goods, (particularly

Table 6 **Prices**
Percentage annual increase

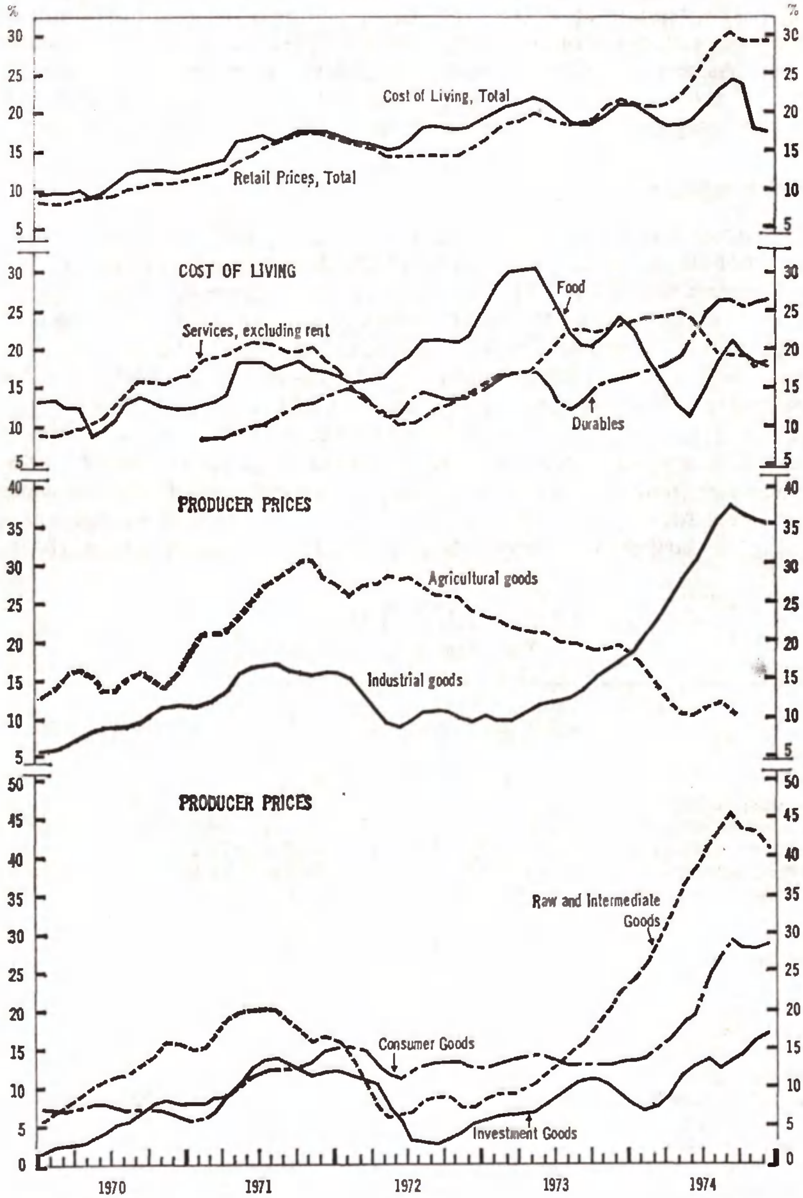
	1969	1970	1971	1972	1973	1974	Average annual increase 1966/1973
Social product deflators							
Social product, total	6.7	12.3	19.6	14.7	17.3	25.2	11.0
Consumption deflator	7.4	11.1	17.5	18.1	19.8	22.7	11.9
Investment deflator	10.3	7.1	17.4	10.8	14.5	27.5	10.2
Cost of living							
Total	8	11	16	17	20	21	11.6
Goods	7	11	16	18	20	21	11.5
of which: food	8	12	17	19	22	16	11.7
Services	12	8	3	10	17	19	11.7
of which: rent	19	4	4	8	9	13	12.1
Producer prices							
Industrial goods, total	3	9	15	11	13	29	7.6
Investment goods	1	5	12	6	9	12	5.0
Raw and intermediate goods	3	12	18	10	13	38	8.3
Consumer goods	4	7	12	13	13	22	8.7
Agricultural goods, total	9	15	26	24	25	13[1]	12.5
Public sector	6	11	28	20	21	18[1]	11.1
Private sector	13	19	25	27	28	9[1]	13.4
Export prices[2]	4	9	5	6	19	32	6
Import prices[2]	5	8	3	6	20	46	6

1 Based on part-year figures.
2 Based on $ US prices.
Source: SZZS, *Materijalni i Drustveni Razvoj SFR Jugoslavije 1947-1972* and *Indeks*.

21 Long-term loans from the IMF and the IBRD totalled about $US 230 million dollars. A loan of $100 million was obtained from Kuwait on 12-year terms with a 5-year grace period at 8 per cent interest. Large loans from the Federal Republic of Germany on concessionary terms have also been obtained.

Diagram 6 **Prices**

3 month moving average, percentage increase on 12 months earlier



Source: SZZS, *Indeks.*

fuel prices) which are heavily influenced by foreign trade. Thus, Yugoslavia's rate of inflation has continued to be one of the highest in the OECD area. Moreover, in evaluating the rate of inflation it is important to note that the greater agricultural price stability was in part due to special factors that may not be expected to persist in the longterm.

The mechanism of price determination in Yugoslavia, discussed in the last two Annual Surveys, did not basically change in 1974. Most industrial products, about 80 per cent by value, and many basic food commodities, are subject to price controls on federal or local levels. However, this is deceptive because in fact most industrial prices can be changed on the basis of social contracts or agreements among the producing and consuming or retailing sectors. These agreements are usually approved by the appropriate levels of government[22]. Some basic industrial and agricultural commodity prices remain significantly influenced by government price controls and, because of the presumed distortions, the controls have been subject to considerable criticism. Price increases might also be more lumpy than would be the case without any controls. Probably, however, the general magnitude of the rate of inflation in 1974 was not significantly affected by the existence of controls.

An important factor contributing to the acceleration of inflation was the rapid rise of foreign trade prices. Of the total amount of goods and services consumed, stockpiled, or exported in 1972, imports constituted about 21 per cent and exports about 18 per cent; probably the proportions were not substantially different in 1974. As noted, both import and export prices rose much more sharply in 1974 than earlier. The indices shown in Table 5 are based on US dollar prices and do not therefore reflect the additional impact on domestic prices of the 7 per cent devaluation of the dinar in October 1974. On the other hand, the indices would include some exchange rate effects, resulting from effective dinar depreciation in following the dollar (Diagram 7) in the last part of the year. Certainly the most important influence came from source price increases. Since both export and import prices for Yugoslavia are largely determined on foreign markets, the inflation that resulted from such price increases may be considered as almost entirely of foreign origin. Taken together foreign trade prices certainly were a very significant factor in the 1974 inflation, possibly accounting for not much less than one-half the increase in price levels and for most of the acceleration that took place[23].

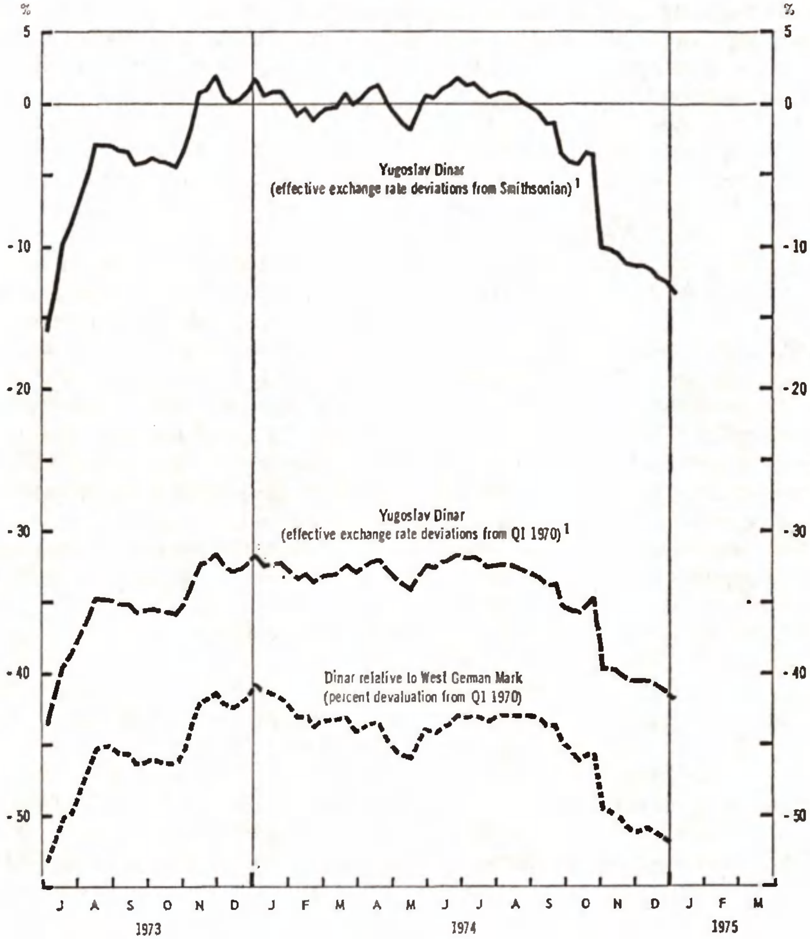
Nevertheless, the domestically generated inflation certainly was very high in 1974, probably higher than in 1973 and almost certainly so if agricultural prices are excluded. Endemic and long term sources of inflation, particularly rapid structural changes entailing pressures on individual products and sectors, the aspirations of virtually all sectors for simultaneous rapid gains in living standards, investments and public consumption, and higher prices resulting from the process of import substitution, must be kept in mind[24]. With regard to more immediate sources of inflation, however, an important question is to what extent the higher demand conditions of 1974 caused or supported the 1974 price rises. At least in the traditional demand-pull sense, it would be difficult to argue that a major portion of the inflation could be ascribed to excess demand conditions. Although some shortages did

22 Price increases approved by the Federal Government on the basis of inter-enterprise agreements or social contracts involving entire industries as well as governmental representatives accounted for about 50 per cent of the total increase in industrial prices in the first nine months of 1974.

23 A study based on import dependence in 1970 indicated that a 1 per cent increase in import prices would result in a .21 per cent increase in consumption prices, assuming a simple pass-through of import prices without secondary adjustments to wages. (Source: Mijo Sekulic, " Strukturna Cena Proizvoodnih Sektora i Moguci Efekti Devalavacije Dinara u godini 1971 ", in *Aktuelni Problemi Ekonomske Politike i Privrednih Kretanja Jugoslavije*, ed. D. Vojnic, Ekonomski Institut, Zagreb, 1972). If this figure is correct (some economists feel that it may have risen to .3 per cent as a result of increased import dependence) then the 1974 import price rise might account for a 9 to 11 per cent increase of the demand deflator in 1974. Export prices would affect the domestic demand deflator in so far as the same goods are consumed domestically and certainly would add a few more percentage points to the deflator. Because of missing elements in the social product statistics it is not possible to quantify the rôle of the import and export deflators. It is, however, interesting to note that the social product deflator, which in principle excludes the mechanical effects of import prices, should have grown apparently more rapidly than that of the consumption deflator, which includes import prices. This would tend to emphasize the importance of the domestically generated inflation. However, subsequent revisions to the very preliminary accounts may considerably change the picture.

24 Longer term inflationary factors have been discussed in earlier Annual Surveys.

Diagram 7 **Exchange Rates**
Weekly figures



1 Trade-weighted exchange rates based on quotations from Yugoslav exchange market. Calculations by OECD Secretariat.

Source: Quotations from *Privredni Pregled.*

exist, particularly for construction materials and some imported goods, overall supply conditions were considered relatively good, perhaps better than in 1973[25]. Also it is noteworthy that prices not subject to control contributed less to inflation than their proportion in the total value[26]. These considerations would suggest that prices were not to any important extent forced up by unduly strong pressure of demand on available resources. On the other hand, price increases of the order experienced could certainly not have been supported without a considerable acceleration of nominal demand. Nevertheless, a growing number of Yugoslav economists are convinced that in fact the roots of the inflation problem in Yugoslavia and the

25 Only 18 per cent of Yugoslav enterprises reported inadequate inventories, as compared to over 21 per cent in 1973. Retail trade also reportedly had sufficient stocks of most products.

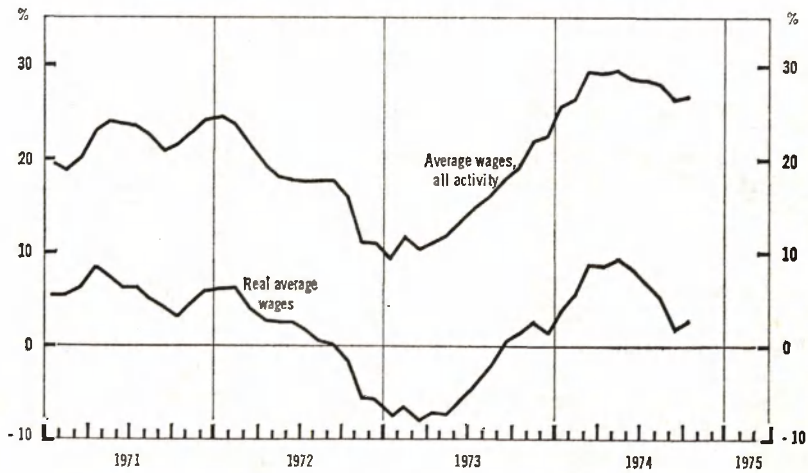
26 According to data provided by the Ekonomski Institut, Zagreb, in the first nine months of 1974 industrial prices not subject to control accounted for about 10 per cent of the total increase, whereas these products constituted about 20 per cent of the value of industrial goods.

behavioural patterns of Yugoslav enterprises are such that any reductions in inflation that could be obtained through fiscal and monetary restraint would be associated with high cost in terms of lost output and employment.

One specific aspect of the inflationary mechanisms in 1974 was related to relatively important price and incomes adjustments of different sectors. Price controls, rent elements and other factors have in the past resulted in large sectoral and regional differences in levels of wages and retained earnings. It is widely agreed that the low earnings abilities of the primary sectors have been a major factor in the lagging growth of some basic industries. Consequently, a major policy task of recent years has been to increase the share of the basic sectors in total value added. Agricultural prices are set according to movements in production costs and in general these prices seem to have been satisfactorily stimulative (though lagging farm prices in 1974 may mean some adjustments in 1975). Industrial prices have been subject to large continuing realignments. With the increasing emphasis on priority sectors, social contract and industry agreements on prices (which are approved at the federal level and which, as mentioned accounted for about 50 per cent of the increase in industrial prices in the first nine months of 1974) were particularly apt to provide large rises for such sectors[27]. To a considerable degree these price boosts were passed along by the processing sectors (whose prices are less amenable to controls) in an attempt to maintain their own earnings. Indeed, given the general inflationary situation, the increases accorded the priority sectors very likely incorporated expectations of major price rises in other sectors. The process of inflationary sectoral share claims probably escalated considerably in 1974 in conjunction with the rapid rise of prices of imported raw and intermediate goods.

The aspirations for higher earnings and the increased attempts to reduce income differentials as between sectors were also reflected in a sharp acceleration of wages. (Diagram 8). With year-on-year increases in nominal wages approaching 30 per

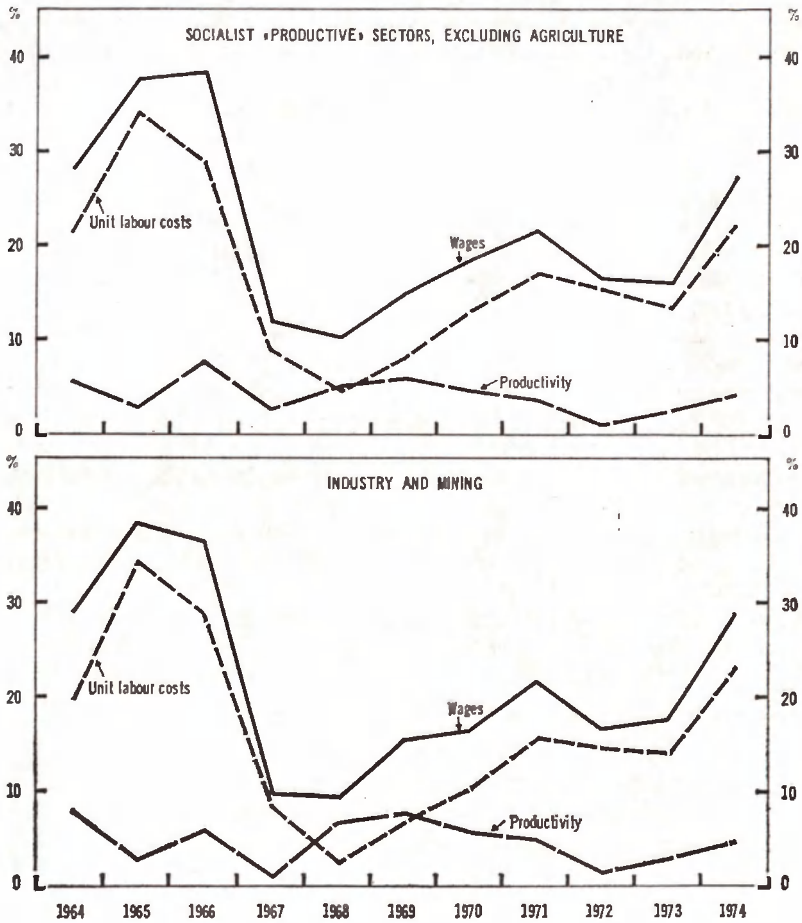
Diagram 8 **Wages**
3 month moving average; increase on 12 months earlier



Source: SZZS, *Indeks.*

27 It is not possible to separate such influences from similar trends operating in world market prices. Nevertheless, it is probably significant that the six industries (out of a total of 18) in which producer prices rose more than 30 per cent in the first 11 months of 1974 were predominantly basic materials producers. (In descending order according to the rates of price increases they were: petroleum, non-ferrous metallurgy, chemicals, coal, rubber, and iron and steel).

Diagram 9 **Wages, Productivity and unit Labour Costs**
Year-on-year percentage increase



Note " Productive " sectors are those whose production is included in social product; the public sector and the liberal professions are excluded.

Source: SZZS, *Statisticki Godisnjak SFRJ*, 1974 and *Indeks.*

cent unit labour costs rose sharply in 1974, in spite of the more rapid gains in productivity (Diagram 9). Since investment demand was buoyant, there was probably an especially strong incentive for enterprises to try to cover increased wage outlays through price rises. Tentative calculations indicate that the wage share rose as a percentage of net realised enterprise income in each quarter from the third quarter of 1973 through the second quarter of 1974, then declined again in the third quarter[28]. It appears on this basis that probably wage costs were a leading rather than a lagging factor in the acceleration of prices in 1974.

As already noted, real wages, which were stagnant in 1972 and 1973, rose sharply in the first part of 1974 but afterwards began to slide. The lack of real gains in 1972 and 1973 was due in no small measure to disproportional food price

28 Comparison is on the basis of the same quarter of the year before. Between the first quarters of 1974 and 1973 the wage share increased from 32 per cent to 36.2 per cent.

increases (Table 5), in turn resulting from poor harvests and other factors. Relatively low productivity growth meant that even non-agricultural prices tended to follow wage rates rather closely. Finally, in 1973 real wages were affected by a partial wage freeze in the first half-year, which entailed some decline of the share of wages in favour of retained earnings[29]. With the expiration of the freeze, however, wages rose much more rapidly than consumer prices, which actually decelerated in the first half of 1974 (due to stable food prices). Some catch-up effect of prices probably would itself have reduced the large increases in real wages. Even so, given the substantial advance in productivity and the good agricultural harvests of 1974, considerable gains in real wages might have remained had it not been for the heavy terms of trade loss. The disproportional increases in import prices caused a loss in real domestic income equivalent to over 6 per cent of social product. Consequently, the domestic price increases were correspondingly larger than the increases in enterprise income which form the basis of wage payments.

It is arguable that the combination of accelerating wages and tightening credit conditions on the one hand and pent up investment demand and an investment conducive policy stance on the other hand have favoured an " aggressive " price fixing of enterprises, especially in the second half of the year. With rates of increase in nominal terms near 60 per cent the amounts of investment payments in 1974 were very large[30]. The finance for these outlays could necessarily come from only three sources: current retained earnings, net credit, or decumulation of financial assets. Bank credits to enterprises did increase but not sufficiently to avoid actual declines in the monetary holdings of the enterprise sector during much of the year (see earlier section on investment). Some sectors or enterprises were affected particularly seriously. As a decumulation of monetary holdings cannot, of course, continue indefinitely many enterprises came under increasing pressure to offset the declining liquidity. One method often used in Yugoslavia in the past, that of informal borrowing (by delaying payments more and more), was increasingly employed. In addition however, enterprises seem to have attempted to deal with this problem of declining balances by raising prices rather than by reducing investment on other outlays[31].

Budget and Monetary Developments

As pointed out in Part I, fiscal policy is not used in Yugoslavia as a deliberate means of influencing the level of aggregate demand. Budget deficits and surpluses are to be avoided on principle. While not always the case in the past, it appears on the basis of very limited information for 1974 that government finances had no important net impact on the level of aggregate demand. The federal budget may have been mildly expansionary (Table 7). The deficit on current transactions was small as a portion of social product (less than 1 per cent), but it is notable that about one-half of the deficit was covered by National Bank loans. The remainder

29 The wage freeze officially applied only to the non-productive sectors and a few of the productive sectors, but probably had some effect on wage increases in other sectors as well. The decline in the wage share was generally in accord with policy as it was felt at the time that excessive wage increases had been an important factor behind the acceleration of inflation. The considerable increase in the share of personal income in social product following the important economic reforms of 1965 (e.g. 38.9 per cent in 1964 vs. 43-45 per cent in most of the years after 1966) also caused concern about maintaining investment.

30 These payments do not, however, always closely reflect effective investment, since they may also cover past deliveries.

31 Such price pressure would have a parallel in " profit push " inflation in capitalist countries, which, however, does normally not occur in periods of severe credit and liquidity squeeze. The interaction with the wage inflation discussed earlier would also correspond to the experience of other OECD countries.

was financed by bond sales[32], but these were largely purchased by enterprises and commercial banks with reserve funds that would otherwise have been inactive. Unfortunately, more comprehensive figures covering all levels of government are available only through 1973 (Table 8). Figures for the first eleven months of 1974 indicate a growth of total revenue of the public sector of 34½ per cent, though reportedly full-year figures will indicate lower rates of expansion. Expenditures, however, may not have grown so rapidly, indicating possible surpluses. This is also suggested by the very large increases in the monetary assets of the non-federal governmental units and agencies (at the end of November these deposits were 60 per cent above those of a year earlier). On the other hand, there was some shift in taxation and expenditures to favour lower income wage earners, and conceivably these changes in the structure of governmental expenditures may have had some expansionary effect. In view of these off-setting considerations, any net fiscal impact in 1974 was probably minor.

Table 7 **Federal Budget**
Billions of dinars

	1971	1972	1973	1974 (plan)	1974 (est)	1975 (plan)
Regular revenues	18.4	25.5	30.9	38.3	42.5	54.7
Customs duties	7.1	10.7	13.3	16.3	19.7	26.4
Contributions from the Republics	4.3	13.6	16.5	20.2	20.2	26.5
Turnover tax	5.2	—	—	—	—	—
Other	1.8	1.2	1.1	1.8	2.6	1.8
Expenditures	17.9	25.1	33.7	39.5	45.3	57.7
Defence	8.9	11.7	16.2	19.6	19.5	29.0
Administration	1.8	2.6	3.7	4.3	4.3	5.9
Grants to the Republics	1.5	1.8	2.5	3.1	2.9	4.6
Investments	2.0	1.1	.8	—	—	.5
Supplements to pension funds	.9	1.9	3.9	5.3	6.0	6.5
Other	2.8	6.0	6.6	7.2	12.6	11.2
Subsidies and rebates				..	10.7	10.2
Surplus on regular account	.5	.4	-2.8	-1.2	-2.8	-3
Financing						
Receipts	—	—	4.0	3.2	4.8	3.5
Borrowing from National Bank	—	—	1.4	1.4	2.2	—
Bond Issues	—	—	2.6	1.8	2.6	3.5
Allocations	.5	.4	1.2	2.0	2.0	.4
Budget reserves	.2	.1	.5	.2	.2	.2
Debt repayment and other	.3	.3	.7	1.8	1.8	.2

Source: Direct communication to the OECD.

A primary concern of the authorities in regard to public finances was to curb both taxes and expenditures on all levels of government. Public consumption in real terms was to be restrained to a growth of no more than one percentage point less than that of social product[33]. At the same time, taxes, especially sales taxes, were to be lowered, with hoped-for favourable effects on prices and the living stan-

32 As explained in the last Annual Survey, for the first time in recent years the Federal Government utilised bond sales to finance budget expenditures. The issues were for one year and carry 10 per cent interest. As sales to individuals were rather small, tax relief will be offered as an additional incentive to bond purchases in 1975.

33 While not actually specified, this goal apparently referred to real government expenditures including transfers as well as goods and services. In any case it is not strictly comparable with the figure for public consumption in the social product accounts (Table 1), since this figure includes only material costs in the public sector.

Table 8 **Consolidated Budget of General Government**
Billions of dinars

	1970	1971	1972	1973
Current revenue, total	57.7	70.7	88.3	111.9
Direct taxes	31.8	34.4	39.5	51.9
Indirect taxes	18.3	24.1	35.6	44.5
Obligatory loan for regional fund	—	3.0	4.1	5.1
Other	7.6	9.2	9.1	10.4
Current expenditures, total	56.3	69.0	88.8	113.9
Administration and national defence	13.2	15.6	18.8	22.8
Education	7.4	9.3	10.8	12.5
Social security	17.2	21.7	28.0	36.2
Investment	12.4	12.9	14.3	20.8
Other	6.1	9.5	16.9	21.6
Surplus	1.4	1.7	-.3	-2.0
Financing				
Net foreign borrowing	-.9	-1.0	-1.5	..
Net domestic borrowing	-.5	-.7	1.8	..

Source: Direct communication to the OECD.

dards of lower income workers and on enterprise investment. In fact a number of sales taxes (turnover taxes) and customs duties were reduced in the course of the year, though in view of the magnitude of inflation they were only of minor significance for price stability. On the other hand a number of new taxes were introduced at the republic level based on net enterprise income. In principle these would have been offset by reductions in taxes based on enterprise wage payments. However, there was a strong demand for increased outlays for social services (provided by the functional agencies), such as social security, education and health services, and in fact in some cases these taxes were increased[34]. The net result was that apparently tax revenues increased at roughly the same rate as nominal social product. The authorities considered this growth somewhat excessive, and reductions in some tax areas were apparently made in the final quarter of 1974. Nevertheless, in view of the tax increases and the estimates of the growth of material consumption in the public sector, the aim of reducing the relative tax burden on the economy was not achieved.

Monetary policy in 1974, intended to be more or less neutral, probably was somewhat restrictive. The original target growth for the money supply was 22-24 per cent, slightly less than the expected growth of social product. In June the target was raised to 26 per cent as a result of the evidently more rapid expansion of social product. Because at the same time the deficit in the foreign account was much larger than earlier expected, entailing a stronger reduction in the money supply, the target growth for bank credit was raised from 37.1 billion dinars to 58.4 billion. These new targets for monetary and credit growth were roughly achieved (Table 9). The restrictive impact of the foreign balance on the money supply was offset by

34 Revenue figures to illustrate these divergent trends are not available. However, in an interesting study done at the Ekonomski Institut in Zagreb covering the first six months of 1974 in comparison with the same period of 1973 it was estimated that at unchanged tax rates turnover taxes and customs duties would have increased by 8.6 billion dinars, whereas the actual increase was only about 3.2 billion. On the other hand, the automatic increase of taxes on enterprise income and wage payments in the socialist sector would have amounted to 7.7 billion dinars, whereas the actual increase was 12.2 billion. Source: Pero Jurkovic, " Kretanja u Oblasti Financiranja Opce i Zajednicke Potrosnje i Ocjena Djelovanja Fiskalne Politike u Prvom Polugodistu ", in *Aktuelni Problemi Privrednih Kretanja i Ekonomske Politike Jugoslavije*, p. 66.

Table 9 **Money Supply and its Formation**

	1970	1971	1972	1973	1974	1970	1971	1972	1973	1974
	Change in billions of dinars					*Per cent change (end of period over one year earlier)*				
MONEY SUPPLY BY SECTOR										
Enterprises	0.7	0.7	4.9	9.8	4.9	10.6	8.8	60.0	75.5	21.5
Public bodies	2.3	2.0	5.0	7.0	8.5	24.2	17.0	36.2	37.2	32.9
Private individuals	3.2	3.3	5.3	5.5	6.2	26.2	21.4	28.3	22.9	21.0
Funds in transit	0	-0.5	2.7	0	1.8					
Total	6.2	5.5	18.0	22.2	21.6	20.0	14.9	42.3	36.8	26.1
FORMATION OF MONEY SUPPLY										
Bank credits	33.0	36.7	36.9	43.2	68.6[1]					
Foreign exchange transactions	-4.1	-5.2	7.6	7.7	-9.8					
Increase (= -) in non-monetary deposits	-22.7	-26.0	-26.5	-28.7	-37.2					
Total	6.2	5.5	18.0	22.2	21.6					

1. Adjusted for credits transferred to enterprises and public bodies on unlimited time basis.
Source: Bilten Narodne Banke and direct communication to the OECD.

reductions in the accumulation of non-monetary deposits[35] as well as by bank credit growth. Nevertheless, the overall rate of monetary growth was very considerably lower than the 34 per cent rate of increase in social product, contrary to original intentions.

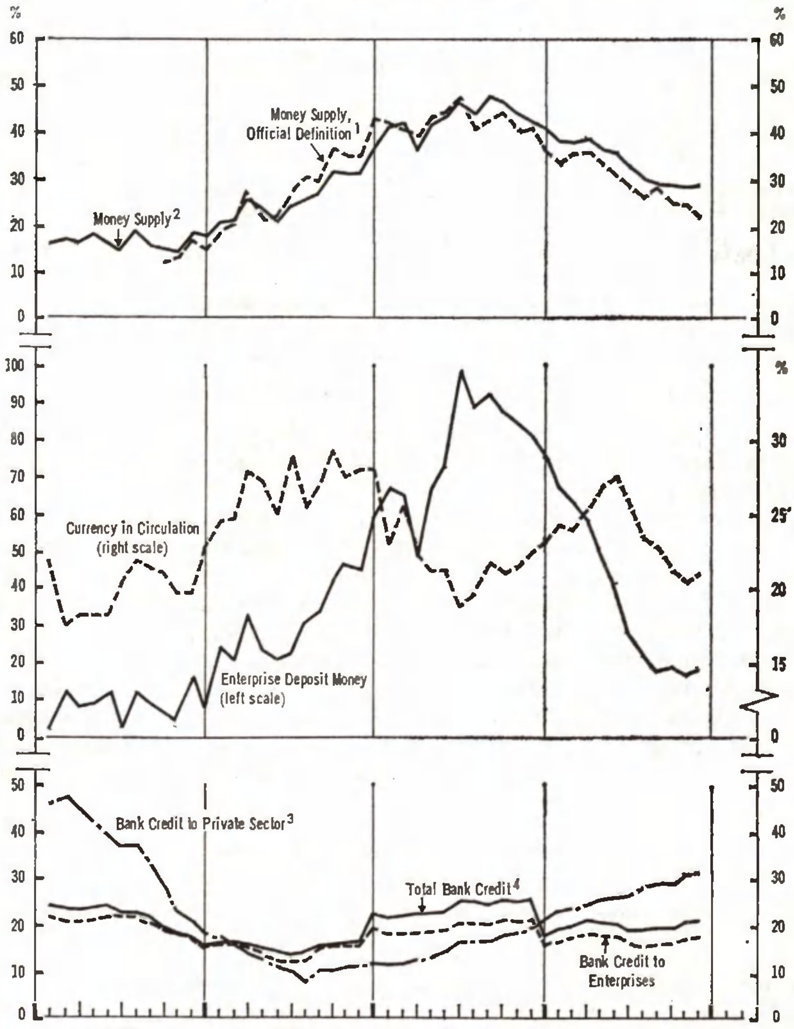
Virtually the entire impact of the reduced monetary growth was felt in the accounts of the enterprise sector, while substantial increases were registered in the deposit holdings of non-federal governmental units and in currency outstanding. Similarly, percentage increases in credit to the Federal Government and to individuals were considerably larger than those to enterprises (Diagram 10 and Table 10), though quantitatively less important. Although there were reports of lengthening of payments lags and other possible symptoms of illiquidity, liquidity has so far been sufficient to sustain very high rates of increases in investment payments[36]. However, it should be noted that in the past enterprises have often tended to maintain investment and other outlays well beyond the availability of funds. As discussed earlier, a liquidity squeeze tends to force a larger burden of investment financing on retained earnings and could thus induce more aggressive price fixing. The key question is, of course, whether or not increased enterprise crediting would have resulted in even larger expenditures on investments, leaving the liquidity problem roughly the same, while running the risk of sparking demand pull inflation and increasing the foreign deficit.

As discussed in Part I, a number of reforms in the instruments of monetary control were intended for 1974, including particularly the reduction of the selective credit functions (direct and through rediscount loans) of the National Bank, thus enabling decreases in reserve requirements and increased responsibilities of the

35 This was due mainly to the reduction of restricted enterprise deposits (e.g., frozen deposits in connection with foreign borrowing or new investment projects). Savings deposits and other financial investments continued to increase.

36 It may be argued that because of the large increases in enterprise monetary holdings in 1972 and 1973 considerable reductions could take place before any important problems would arise. Also, in the summer of 1974 about 10 per cent of outstanding bank credits to the enterprises were ceded on an indefinite basis at reduced interest rates; this meant an effective increase in liquidity.

Diagram 10 **Money and Credit**
Increase on 12 months earlier



1 Includes currency in circulation, funds in transit, and demand deposits of the non-banking sector.

2 Money supply aggregate which excludes from the officially defined money supply funds in transit (float), demand deposits of the Federal Government, and certain investment funds of public bodies.

3 Includes consumer credits as well as credits to private business.

4 Excludes credit to the Federal Government and certain other, relatively minor, categories.

Source: SDK, *Statisticki Bilten.*

commercial banks. Only parts of these reforms were achieved in 1974. As intended, the National Bank discontinued the expansion of most of its rediscount credit except for agricultural credits. Also, some reductions were made in reserve requirements in the course of the year (see Annex of Policy Measures). Partly for this reason and partly because of an important reduction of the special deposit requirements on foreign borrowing and investment projects, the amount of primary money

Table 10 **Bank Credit**

	1974[1]	1970	1971	1972	1973	1974
	Amount outstanding end of period. (billions of dinars)	*Percentage change (end of period over one year earlier)*				
Total bank credit	353.1	22.7	20.7	17.3	17.2	19.8
Economic enterprises	269.9	21.0	17.1	17.8	15.7	18.6
Public bodies and funds	54.5	22.6	45.6	17.4	23.5	19.0
Private individuals	28.6	45.7	17.9	11.4	21.0	34.0

1 Figure includes credits transferred to enterprises and public bodies on unlimited time basis.
Source: SDK, *Statisticki Bilten.*

withdrawn through increased reserve deposits with the National Bank was much less in 1974 than in 1973 (Table 11). However, the proposed inter-bank agreements detailing requirements and procedures for selective credits were not completed. Consequently, the National Bank was obliged to use the temporary device of specifying the selective credits for which the funds freed from reserve requirements might be used. Furthermore, in contrast to the rediscount loans, direct National Bank credits, especially to the Federal Government and its agencies, increased greatly. The large withdrawals of money through foreign exchange operations could have enabled a much more substantial reduction in reserve requirements and thereby larger commercial bank crediting of the business sector. Instead, however, the increased possibilities for decentralized credit expansion were pre-empted to a considerable extent by direct central bank credits. Indeed, as these credits were not undertaken as a deliberate tool of monetary expansion, there is some question

Table 11 **Formation of Primary Money**
Change in billions of dinars

	1970	1971	1972	1973	1974
CENTRAL BANK OPERATIONS					
Credits to commercial banks and funds	7.4	5.3	7.3	4.0	5.6
Credits to Federal Government and other non-bank clients	2.8	3.4	2.0	6.1	10.4
Central bank foreign exchange transactions	–2.8	–1.4	8.2	7.6	–7.5
Other	.5	1.6	.9	1.3	–1.0
Total	7.9	8.9	18.4	19.1	7.5
OFFSETS					
Deposits of Federal Government and other non-bank clients	–4.2	–3.5	–.9	–6.8	–5.1
Funds in transit	0	.5	–2.7	0	–4.8
Currency in circulation	–3.0	–3.4	–5.2	–5.4	–1.4
Reserve requirements	–1.5	–1.7	–4.0	–7.6	5.8
Other reserve deposits of commercial banks	.9	–.7	–4.7	1.6	.9
Total	–7.8	–8.8	–17.5	–18.2	7.6
NET PRIMARY MONEY	.1	.1	.9	.9	–.1

NOTE Negative figures indicate reductions in primary mouey.
Source: Bilten Narodne Banke and direct communication to the OECD.

as to whether, in the absence of the withdrawals on the basis of foreign transactions, the growth of the money supply might have again, as in 1972 and 1973, escaped the control of the authorities.

III PROSPECTS AND POLICY CONSIDERATIONS

The process of longer term change and adaptation is expected to gather further momentum in 1975 and beyond. The preparation of the 1976-80 economic plan is now underway. In comparison with past medium term plans, it will give more emphasis to structural change, particularly the development of agriculture, energy, and basic industrial materials, an orientation which has already strongly influenced the 1975 Policy Resolution. The process of institutional reform will also have some bearing on the economy. The Yugoslav authorities consider 1975 as a transitional year in the implementation of the new constitution. Reforms of the banking system and the mechanism of income distribution are to be undertaken. These reforms would enable the working collectives to play a greater role in the formation and allocation of investment resources.

As regards short-term demand management in 1975, economic policy remains basically committed to expansion. The authorities feel that price stabilisation must be viewed as a longer-term goal calling for continuing substantial gains in output and productivity. These in turn require large investments, which cannot be achieved in a setting of general restriction. Still, other important growth constraints do exist. From a physical standpoint, construction delays, rainfall patterns and poor planning in the past will probably mean shortages of electric power, limiting growth in some activities in 1975. From a demand standpoint, the balance of payments is the most binding growth constraint. Import prices will probably be more stable this year, but the authorities do not expect any important relief on external balance through terms of trade shifts. Since a deficit of the order of 1974 is neither desirable nor sustainable, serious efforts must be made to shift resources both to exports and to import replacement. It is felt that in the short-run there is considerable room for import reduction without severe impact on living standards. However, in the longer-run the balance of payments problem necessitates an improved structure of output, with increased specialization and competitiveness for international markets and more reliance on the domestic resource based industries.

In view of these considerations the real growth target for 1975 is set to be only marginally below that for 1974, with large gains in investment and considerable shift of resources to the foreign balance envisaged. Some progress is officially expected in reducing inflation in the course of the year. The expected continued sharp rise in the social product deflator, only two percentage points less than in 1974, would be affected by the pass-through of wholesale price increases that have already occurred. The December to December increase of industrial producer prices is expected to be 18 per cent, about half the comparable rise in 1974. While private and public consumption, together with public non-residential investment, will decelerate considerably, the growth of business investment and residential construction is anticipated to stay very near the high rates of 1974[37]. At the same time, real merchan-

37 Unfortunately, there is no regular series with the breakdown of investment. However, in 1974 housing investment increased by about 9 per cent, productive or economic investments by more than 9 per cent, and public non-residential investments by less than 9 per cent. In 1975 housing investment is expected to increase by 8 per cent and economic investments by 9½ per cent, while public non-residential investment would actually decline by about 20 per cent.

dise exports are forecast to grow much more rapidly than imports. It is hoped that this pattern of real import/export growth along with expected moderate increases in tourism and perhaps somewhat larger remittances as returning workers repatriate their savings, would result in a current account deficit somewhat less than that of 1974.

An increased share of resources for investment, exports and for import substitution implies increased savings formation, which in Yugoslavia takes place largely at the enterprise level. For this reason, tax revenues are scheduled to increase by 20-25 per cent, i.e. less than nominal social product. Similarly, real wages are postulated to advance by less than the increase in productivity, projected at $3\frac{1}{2}$ per cent (presumably this refers to the socialised sector only). Probably partly in order to avoid extra pressure on wage payments, the increase in employment is envisaged to be only 3 per cent, as compared to almost 5 per cent in 1974, in spite of a somewhat larger anticipated return flow of workers abroad. The employment increase would be sufficient to absorb all of the new entries to the labour force from the schools and colleges, as well as a minor portion of the returning workers. It is expected that a substantial number of the returnees will take up farming and other private activities with the aid of savings earned abroad.

Reflecting the high priority given to structural aims in 1975 the methods of implementing the policy resolutions are again rather selective and diverse. In many cases they will operate through federal influence on social contracts and agreements among republics, localities and different sectors of the economy. The 1974 policy of providing special stimulus to the growth of the favoured final demand components, economic investments and exports, will be continued. Priority sector investments benefit from special access to domestic and foreign credit and reduced duties on imported equipment; new measures that may be introduced in 1975 would provide tax breaks for these sectors. Exporters obtain a type of subsidy through rebates from import duties, as well as preferential credit treatment. It is also hoped that negotiations may succeed in obtaining some relief from the EEC restrictions on beef imports.

To favour a shift of resources into investment and the foreign balance public consumption will be restricted. Because of the excessive growth of taxes in 1974, special measures are being introduced in 1975 whereby receipts of all government bodies will be audited quarterly. Tax payments will be suspended if they exceed agreed-on proportions relative to net national income. The federal budget, if only current transactions are considered, will probably increase by about 28 per cent (Table 7), which is slightly less than the projected increase in nominal social product (30.6 per cent).

The growth of personal consumption will importantly be influenced through wage policy. No special measures have been foreseen to support the apparently weakening consumer demand, though as in 1974 selective reductions in turnover taxes or preferential consumer credit provisions may be made as the situation warrants. A new round of wage system reforms are to take place in 1975. One important task is to reduce the generation of inequitable wage differentials, arising from different operating conditions, market position, capital intensity, rents etc. (The existence of such differentials releases inflationary pressure as discussed in the previous two Annual Surveys). The wage system reforms requiring more profitable sectors to put aside larger proportions of net income for enterprise funds, will serve to increase the overall share of retained enterprise earnings, one of the goals of 1975 policy. Consequently, the advance of real wages would have to be kept below that of productivity while real personal consumption would grow less than social product.

The intentions of monetary policy will not be much different from those of 1974. The increase in overall money supply has been set tentatively at 26 per cent (as compared to the growth of social product of 30.6 per cent), but within this the enterprise holdings would increase by 30 per cent, while the monetary deposits of government bodies, which grew rapidly in 1974, would expand much less. A reduction in reserve requirements, especially on savings accounts, is intended and the principal source of monetary creation would be through commercial bank credits to enterprises. This presumably would enable the trend of declining enterprise liquidity to be arrested in 1975. Because of the tardiness of the establishment of commercial bank accords on selective crediting, the Policy Resolution for 1975 provides that unless an agreement is reached in the first part of the year, the Federal Executive Council will provisionally prescribe a structure of credit growth, binding on all commercial banks, to provide for the needs of the priority sectors. Apparently because of the priority given the balance of payments objectives, the National Bank will again provide, besides agricultural rediscount credits, more or less automatic coverage for exports and certain types of imports. Thus, contrary to earlier intentions, the role of the Central Bank in selective crediting may not diminish in 1975.

In the light of the recent economic performance and current policy attitudes, the domestic demand and production targets for 1975 would seem attainable. The marked slackening of personal consumption towards the end of 1974 may give way to a new upturn as both employment and wages seem to advance faster than anticipated in the 1975 resolution. With regard to investment, the decline in enterprise liquidity during most of the past year would, if continued, exert some dampening impact on investment activity or lead to a re-emergence of the illiquidity problem or both. However, recent figures indicate a continuing high rate of enterprise payments for investment, as well as some improvement in enterprise liquidity. Given also the intentions of the monetary authorities to channel a greater share of new credit to the enterprise sector in 1975, the current prospects are that investment demand will be adequate, perhaps more than adequate, to meet the targets for 1975.

In view of the high rate of activity domestically and the faltering conjunctural conditions abroad, the foreign trade goals are certainly the most ambitious and may be difficult to attain. The 4 per cent target figure for the volume growth of imports is not in keeping with past relationships, when imports tended to grow rather more rapidly than social product. The favourable agricultural harvests of 1974 and the substantial inventories of most imported goods will dampen import demand but there nevertheless remains considerable doubt whether the growth targets for domestic demand are compatible with such a sharply reduced rate of import growth. Likewise, the projected 10 per cent increase in the volume of goods exports is larger than in most recent years (the average from 1966/67 to 1972/73 was 6½ per cent). Further, markets within the OECD, which account for about 55 per cent of total Yugoslav exports, cannot be expected to increase significantly in 1975[38]. On the other hand, in view of the 55-60 per cent value increase in sales to non-OECD countries between 1973 and 1974, strong demand from the non-OECD area may again provide a prop to Yugoslav total exports. Any relaxation of EEC meat import restrictions would of course also have a very favourable effect. Nevertheless, because of the weight of the OECD trade in the total a volume growth of 2-3 per cent below target would already represent a considerable achievement[39]. Furthermore, because of the much larger absolute level of imports than of exports, foreign trade price increases which leave the terms of trade unchanged nevertheless increase the trade deficits. Given these considerations, as well as the uncertain prospects for tourism and the likelihood

38 OECD forecasts imply a growth of Yugoslav markets within the OECD of only about ½ per cent.

39 Assuming a ½ per cent growth of volume exports to the OECD, exports to non-OECD markets would have to increase by 22 per cent to attain the goal. Weighting forecast OECD exports to non-OECD areas by 1972 Yugoslav trade shares would indicate an increase of only 6½ per cent.

of a decline in remittances, it may be difficult to avoid a current account deficit at least as large as that of 1974[40].

Yugoslavia seems to be relatively well placed to finance her external deficit and hence there is no emergency with regard to the balance of payments. Nevertheless, a current deficit of the 1974 magnitude or more is probably not acceptable for a longer period. It is therefore appropriate that an increased portion of domestic production be devoted to exports and/or import substitution. However, there does not seem to be general excess pressure on domestic resources; labour resources in particular are clearly underutilized and with the probable return of workers from abroad will become even more so. Under these conditions and given also the structural and general development needs of the country, any restraint to domestic demand should be confined mainly to consumption. Maintenance of a high level of aggregate demand and particularly investment, while a prerequisite for a rapid rate of growth and employment, does not necessarily conflict with price stabilisation policy requirements. In view of the narrowness of the Yugoslav market, it is unlikely that any tolerable amount of demand restriction would result in any important and lasting reduction in inflation.

On the other hand, there would seem to be too much complaisance with regard to the deteriorating price performance in recent years. The acceleration of inflation in other countries does not mean that a 25 per cent rate of inflation in Yugoslavia is somehow less serious. In spite of offsetting policies, inflation of this magnitude, apart from being a " public nuisance ", is bound to have strong distributional effects and tends to distort the allocation of financial and real resources. In view of the good harvests, the large reserves of foodstuffs, and especially the increased stability of import prices, the possibilities for a reduction of inflation in 1975 would seem rather favourable, perhaps justifying more ambitious price targets than laid down in the 1975 resolutions. However, in view of the rates of wage increase (which, as noted earlier, may have recently accelerated from the already high rates) and the expected increase in the shares of enterprise retained earnings, it may be difficult to capitalize on these opportunities to achieve an important reduction in inflation. Wage restraint may be difficult to impose in view of the stagnation of real earnings in 1972 and 1973. Yet large nominal wage increases do not automatically result in any real gains, especially if, as intended, the share of retained earnings (" accumulation ") for investment is to be increased and the external deficit reduced. Obviously, sectoral distribution of earnings poses a problem, and some inflation will clearly be generated through necessary price realignments. However, these adjustments in themselves would not be a continuing source of price increase if there are no compensatory claims of other sectors, and would in any case be minor relative to the total expected inflation. It seems that the mechanism of social contracts, which can and does serve as a vehicle for incomes policy, should be more effectively utilised, first to prevent such sectoral price realignments from being a self-generating source of inflation and secondly to achieve a simultaneous reduction in the rate of increase of both prices and wages.

The problem of employment and its relation to the structure of output also deserves further consideration. The projected increase of employment in the socialist sector in 1975 (3 per cent) is considerably less than that of 1974 and may not be sufficient to absorb any important portion of the currently unemployed labour force or the expected accelerated return flow of workers from abroad. In the past when ample employment opportunities abroad existed and offered an important outlet for the disguised unemployed, policy makers have understandably been preoccupied

40 Assuming 8 per cent and 5 per cent increases in the volume of imports and exports respectively, and a 10 per cent increase in both import and export prices, the result would be an increase of the trade deficit of $ US 500 million. Any net increase in services and transfers would probably be much less than this.

with the achievement of a high rate of productivity growth. While efforts to promote technological progress and productivity are necessary to sustain a high rate of growth of social product and national income it is important to note that the choice of the most economical structure of investment and hence the capacity of the economy to absorb additional labour are among other things determined by the level as well as the trend rate of relative prices for labour and capital. At any given pace of capital formation there exists a certain trade-off between the possible achievement of higher labour productivity and higher income growth per employed person on the one hand and higher employment and per capita income growth on the other hand. For this reason, as well as more general standards of equity, some consideration should perhaps be given to appropriate policies of accelerating employment growth. A lowering of the labour/capital cost ratio would favour the adoption of more labour intensive techniques in each branch of industry and would at the same time tend to reduce the relative share of capital-intensive sectors. A desirable approach in the medium term might be a promotion of urban residential investment: not only is housing construction rather labour intensive, but there is a broad consensus that at the current level of development improved housing would represent one of the most important contributions to living standards that economic growth might confer. In any case, given the probability that the net return of workers abroad as well as the outflow of labour from agriculture will continue, though possibly at diminishing rates, a better utilisation of available labour resources should be an important goal of the forthcoming five-year plan.

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Annex

CHRONOLOGY OF MAIN ECONOMIC POLICY MEASURES

1973

July

Expiration of the freeze imposed in December 1972 on wages in the " non-economic " sectors and selected producing sectors. In connection with the programme announced in June to improve the position of the producing enterprises, the Federal Assembly passed the following measures:

(*a*) amendment of law of 1972 which prohibited enterprises from investing in fixed assets until they had established a certain level of long-term working capital assets out of their own funds or long-term loans; with the amendment, enterprises not yet having attained the required levels would nevertheless be allowed to invest in fixed assets up to 20 per cent (50 per cent for priority sectors) of their amortization funds and some types of investment projects would be exempt altogether from the requirement;

(*b*) enterprises would be enabled to utilise for working capital certain reserve funds established in connection with a freeze on the level of tax payments; in addition, changes in the methods of book-keeping would allow these and other reserve funds to count towards the fulfilment of the minimum long-term working capital requirements;

(*c*) amendment of law which required enterprises to contribute varying percentages (depending on the sector) of the financing for new investment projects from their own funds; according to the amendment, enterprises would be able to include as part of their share any credits obtained from the fund for underdeveloped regions and any credit obtained in consequence of damages from natural disasters;

(*d*) amendment of 1972 law which required that enterprises deduct from their calculated earnings a portion of debts owed them and overdue for more than 90 days; by the amendment this law was substantially weakened as it would no longer apply to debts between enterprises nor to debts for which a bank guaranteed promissory note has been obtained.

(*e*) the special deposits introduced in 1972 and required on all new investments in non-productive assets in the socialist sector would no longer draw interest and would be available only for investments in priority sectors of the economy.

(*f*) public agencies and entities (with some exceptions) would be limited through 1974 to a .5 per cent return on bank deposits and would not share in distributed bank earnings; presumably this will mean that enterprises will receive greater shares of bank income and pay lower interest on credits.

Decision of the Federal Executive Council to abandon fixed margins of support for dinar parity in relation to the dollar. Essentially this meant that the dinar value could now fluctuate independently of the dollar, though the National Bank would intervene to establish the actual rates of exchange on the internal foreign exchange market. It was announced that the rate of exchange would be maintained temporarily within a 5 per cent margin of 16 dinars per dollar.

Decision to make available an additional 200 million dinars from foreign exchange reserves for increased imports of raw materials and food goods over the next four months.

Decision of the National Bank to allow commercial banks to keep up to 50 per cent of their reserve requirements in the form of federal or republic bonds, treasury bills issued by the National Bank, or bills of exchange issued against consumer credits and credits granted to enterprises for the purchase of equipment on terms of two years. However, the maximum amount of the reserves that would be held in the form of federal or republic bonds was set at 30 per cent of the reserve requirements.

August

Decision of the National Bank to reduce or eliminate the existing 75 per cent deposit requirements on loans obtained abroad by enterprises and banks where the borrowed funds would be used to finance investments in priority sectors.

September

Decision of the Federal Executive Council to allow larger imports of some meat products and to restrict the exports of others.

Revision of the monetary and credit growth projections for 1973. The projected increase in the money supply to the end of the year (over the level of the end of December 1972) was set at 19.6 billion dinars instead of 9.3 billion dinars as originally projected (or 32 per cent versus 15 per cent) and the total bank credit growth at 43.7 billion dinars instead of 29.5 billion (17 per cent versus 12 per cent). At the same time the projected National Bank creation of primary money was increased from 8.2 billion to 9.9 billion dinars.

In an effort to implement the new targets the National Bank at the same time set credit growth limits for commercial banks of 2 per cent to the end of October, 3 per cent to the end of November, and 4 per cent to the end of December above the levels of the end of August. However, a number of credit categories were exempted from inclusion in the base for calculation of the credit ceilings. Also individual banks could exceed the growth limits if other banks were willing to cede their credit growth quotas.

Federal Assembly approved revision of the Federal Budget for 1974 which increased projected outlays from 29.9 billion dinars to 30.9 billion. (However, this new projection did not include certain increased outlays for defence which were covered by the issue of a certain type of bond which the Yugoslav National Army could use to pay its expenses). The required increases were the result of inflation and the programme for the payment of wheat premiums introduced in August. The increased outlays would be matched by above-predicted receipts from customs duties and smaller increases in the contributions of the republics.

October

Federal Assembly passed law establishing premiums to be paid to farm enterprises on wheat, sunflower, sugar beet, and milk production; receipts from these premiums must be set aside for investments aimed at raising production.

In a further liberalisation of import requirements, the National Bank moved to suspend the former requirements that enterprises intending to import immediately upon announcement of the conclusion of the import agreement place in a special bank deposit an amount equal to the value of the goods to be imported.

The National Bank increased the minimum required liquidity reserve from 80 per cent to the full amount of each bank's reserve fund. As before the liquidity reserve could be held in the form of National Bank notes, federal or local bonds, or special accounts with the Social Accounting Service; in addition, certain discounted consumer credits or credits for machinery sales could now fulfil the liquidity requirement.

Federal Assembly passed law abolishing the existing regulations which required that investors place in frozen accounts guarantee deposits (generally about 10 per cent of the estimated investment costs) until the completion of their projects. Existing deposits would not be returned until the current projects are terminated, though republics and autonomous provinces could establish exceptions for priority sectors.

Federal Assembly passed bill authorising the initiation of work on the 1976-1980 Social-Economic Plan.

Republic Assembly of Serbia reduced the required portion of self-financing in priority sectors from 20 per cent to 5 per cent. Similar actions had been or were to be taken in other republics and autonomous provinces.

Republics of Slovenia and Croatia initiated programmes restricting electricity consumption and establishing allocation priorities; these programmes were necessary as a result of production shortcomings, particularly in hydroelectric plants and attributable largely to recent unfavourable rainfall patterns.

Decision of the Federal Executive Council to establish the maximum amount to which any single commercial bank can act as a guarantor for investment loans to the sum of the bank's founding fund, funds on deposit for terms longer than one year, funds obtained specifically for investment purposes from government entities, investment credits obtained domestically or abroad, and funds obtained from the sale of commercial paper with maturities longer than one year.

Federal Assembly passed amendments altering the existing foreign exchange system. One amendment empowered the Federal Executive Council, as it deems advisable, to establish central parity rates for the dinar in terms of any convertible currency or IMF Special Drawing Rights. By another provision enterprises were allowed to hold foreign exchange deposits abroad and were no longer required to pay for certain imports out of their foreign exchange retention quotas, but could obtain foreign exchange requirements directly from commercial banks. Another provision excluded commercial bank holdings of foreign exchange in accounts abroad from official reserves; as a result these accounts would no longer be protected from losses due to official parity changes. On private foreign exchange accounts in commercial banks, the banks themselves would bear any dinar losses due to day-to-day changes in the exchange rates; however, the Federal Government would cover losses arising due to any changes in official parity.

Decision of the Federal Executive Council to increase the prices of gasoline and other oil derivatives. The range of increase was from 28 per cent for fuel oil for heating to 42 per cent for regular octane gasoline. The decision was described as temporary and further changes would depend on developments in the world market.

November

Republic Assembly of Serbia adopted measures to ameliorate the problem of declining real wages: the Republic Executive Council was given authority to raise minimum wages in the course of the year and special tax relief was authorised for enterprises with low wage levels.

Commercial banks temporarily limited in central bank borrowing to the levels outstanding as of November 20.

Restrictions on electricity consumption extended to all republics and autonomous provinces.

Federal Assembly passed law authorising the Federal Government to borrow from the National Bank 5,283 million dinars with a repayment period of 25 years (payments starting in 1977), at an annual interest of 1 per cent, for the purchase of commodity reserves.

December

Federal Assembly passed Budget and Resolution on Economic Policy for 1974. The main emphasis was on an increased rate of real growth through some acceleration of consumer and especially investment spending. (Social product was expected to increase by at least 6.0 per cent, vs. 5.0 per cent in 1973; investment in fixed assets to increase by 7.0 per cent, vs. 4.0-4.5 per cent in 1973). However, the resolution also called for halting the rise in the rate of inflation and " creating the conditions " for its reduction; to this end the growth of public consumption would be kept at one percentage point less than the rate of increase of social product and imports would be further liberalised.

Federal Assembly passed Law on the Suppression of Unfair Competition and Monopolistic Agreements. The law prohibited competitive practices which are counter to " good business behaviour " and which inflict or may inflict damage on other enterprises, consumers, or the general public. Such practices include price discrimination and other forms of discriminatory treatment and some forms of non-price competition such as prizes and contests. Monopoly agreements are agreements designed to reduce free competition or agreements by which one or more enterprises achieves or may achieve monopolistic or privileged economic positions. Included are agreements on the division of markets, price fixing and other agreements which fix the conditions of sale or purchase.

Inter-republic agreement dealing with the electric energy problem concluded. The agreement specified ways of conserving energy, including the elimination of lighted street advertisements, reduction of street lighting by 50 per cent, and shorter television broadcasts. Each republic would draw up further measures to conserve energy. In order that electric energy be allocated efficiently, any republic whose available supply should fall 10-15 per cent below the levels foreseen in the existing energy balance would be able to draw on the supplies of the other republics.

1974

January

Adoption of the main monetary and credit targets for the first quarter of 1974. In accord with the Resolution on Economic Policy for 1974 (see December 1973), the target rate of growth of the money supply would be roughly that of the expected rate of growth of nominal social product (22-24 per cent). First quarter targets for the issue of reserve money through National Bank credits to final borrowers and to commercial banks and through the transfer of the deposits of the Postal Savings Accounts (from the National Bank to the commercial banks) were established on this basis. Credit protections and targets would be formulated in advance for each quarter (previously only annually).

Liberalisation of price controls on a number of industrial raw and finished goods. Enterprises would now be permitted to set prices in accord with market conditions, although notice would have to be given to the Federal Bureau for Prices at least 30 days in advance of any price increase.

Measure allowing Yugoslav enterprises authorised for foreign trade to hold foreign exchange deposits in banks abroad under certain conditions. Prior approval of the National Bank would be required and would be valid for periods of no more than one year.

Decision of the Federal Executive Council that the National Bank continue providing rediscount credits for the importation of petroleum. Also, in order to moderate price increases, customs duties on petroleum and petroleum derivatives were temporarily suspended and the sales taxes on gasoline and other products were reduced.

Liberalisation of imports eliminating the quantitative restrictions on the importation of 180 groups of products including a variety of agricultural and raw products, as well as a number of manufactured goods, particularly investment equipment.

February

Federal Executive Council adopted Anti-Inflation Programme. The programme emphasized that inflation was primarily the result of internal factors, specifically the inflationary financing of consumption, structural problems, low capacity utilization resulting in low productivity, and high costs of production, particularly in connection with tax and debt burdens. The programme emphasized the need to increase output as a means of dealing with inflation. This in turn would mean increasing the share of productive investment in social product and concentrating special attention on key sectors such as energy production and agriculture. While most concrete measures would be elaborated in the context of social contracts of the republics and autonomous provinces, the programme brought out the following approaches: tax breaks for enterprises investing in priority sectors, measures to limit unproductive investments to the level of 1973 and to channel savings through the banking system for the crediting of productive investments, more selectivity in the granting of consumer credit so as to match demand with capacity, closer linkage of wages and salaries to individual results, the limitation of collective consumption, avoiding increases in tax rates, the reduction of interest on bank credits, the continuation and extension of premiums and price controls on agricultural products in order to lessen wage pressures, re-examination of the current levels of import protection for various sectors, and the containment of the percentage of monetary growth in 1974 to no more than that of the growth of nominal social product.

Decision allowing enterprises to issue bonds which would be subscribed to and redeemed in foreign currency. Of the amount of foreign currency so obtained, at least 20 per cent would have to be sold to authorised Yugoslav banks, while the remainder could be used for importing capital goods. In redeeming the bonds the enterprises would be able to purchase foreign currency from the banks only up to an amount equal to that previously sold to the banks.

Adjustment to reserve requirements whereby obligatory advance deposits for housing construction (required as a guarantee of funding) would be subject to only 10 per cent reserve requirement, as opposed to the 30 per cent requirement on most sight deposits. Advance deposits for investments in electric power installations and some other types of projects were exempted altogether from requirement obligations.

Regulation passed which requires special permits for the export of fertilizers and related products, natural and processed gas, and coal and coal products.

Decision of the National Bank to transfer the remaining amount (1.7 billion dinars) of the Postal Savings Accounts to the commercial banks. The transfer in the first quarter would be 250 million dinars.

March

The categories of credit for which business banks may obtain specified percentage rediscount coverage from the National Bank expanded to include credits to agricultural organisations for the production and stockpiling of corn. (Rediscounts could already be obtained for crediting sales of machinery, certain exports, imports of oil and some investment goods, and a number of other agricultural products).

Changes in regulations that require banks or enterprises borrowing funds abroad to deposit with the National Bank a dinar amount equal to up to 75 per cent of the borrowed amount. The new changes expand the range of investment projects to which these deposit requirements do not apply. Existing deposits on loans obtained for investments in these sectors would be returned to the investing enterprises.

April

Enactment of the general basis of credit policy in 1974. According to this document, the National Bank would regulate credit and monetary growth through control of reserve requirements, by direct credits (mainly to governmental bodies and agencies), by credits to the commercial banks for the maintenance of liquidity, and by the purchase and sale of bonds and other financial instruments. The role of the National Bank in selective crediting would be reduced and limited primarily to the provision of earmarked credits for agriculture and for promoting certain exports. Other outstanding earmarked credits granted to the commercial banks by the National Bank would be converted into 25 year loans; the commercial banks would in turn convert the corresponding credits to their customers into 25 year loans at 4 per cent interest. Most selective crediting would henceforth be established on the basis of an agreement among the commercial banks to provide special terms and availabilities of credit for such purposes as export promotion and the expansion of stocks. Reserve requirements would be utilised primarily for controlling the total increase in credit and would be reduced in line with the reduced necessity for National Bank provision of selective crediting. Until the elaboration of the inter-bank agreements, however, the Federal Executive Council would direct the types of credits for which the reserves released by the reduction of requirements could be used.

Deposit requirement on loans obtained abroad eliminated where the funds obtained would be used for financing of ship building for export or for financing of investment projects abroad.

Easing of conditions for obtaining consumer credit. Term length for credits extended from 24 to 30 months and where the credit would be used for the purchase of automobiles, the required downpayment reduced from 20 to 10 per cent.

Rule change which will allow the National Bank to purchase local and republic bonds from the commercial banks when the latter are unable to obtain sufficient liquidity on the basis of general National Bank credits. This represents another move towards the use of negotiable instruments in the implementation of monetary policy.

Ratification of inter-republic agreement on price policy. The document reaffirms the principle that prices should be determined, with due regard to market conditions, through social contracts established among the producing and consuming enterprises. The stability imparted by the contractual obligations of suppliers and consumers would reduce the domestic sources of inflation and dampen the impact of the fluctuations of import prices. The contracts should in general act to increase the rate of return in the basic raw material and energy sectors, as established in the 1971-1975 Plan. Final goods prices should be based on the prices of domestic raw materials and supplies rather than on import prices of comparable final goods. Price pressures resulting from tax increases should be avoided, and in particular the relevant authorities should aim at constraining the absolute amount of the turnover tax per unit of production at the same level as in 1973. Until the ratification of appropriate contracts, margins in wholesale and retail trades will be frozen at their current levels. The rate of inflation of the cost of living in 1974 (December 1973 to December 1974) should not exceed that of 1973 (20%).

May

Reduction in reserve requirements. Reserve ratio on general sight deposits reduced from 30 per cent to 28.5 per cent, and on savings and time deposits from 3 per cent to 2 per cent. The reserve funds released due to this reduction would be set aside in special accounts. Until the completion of a general inter-bank agreement on selective crediting, these funds would be available only for crediting those sectors or operations as might be determined by the National Bank.

Elaboration of the measures for the implementation of credit policy in 1974. Following the establishment of the basic framework for credit and monetary policy (April 1974), the National Bank limited the earmarked rediscount credits of the National Bank to include the provision of coverage for specified types of export operations and the import of oil and oil derivatives, with the total amount to be limited to the credit outstanding under these categories at the end of March 1974, and the provision of coverage for certain types of credits for agricultural stocks and production (wheat, corn, sugar beets, others), with the total amount of available rediscount credits to be determined every quarter. To cover general needs for liquidity the commercial banks would be able to obtain short-term "liquidity credits" from the National Bank on the basis of a collateral of federal bonds or National Bank bills. In principle selective crediting would be accomplished by agreements among the commercial banks. Until the establisment of such agreements, the reserves released by the lowering of requirements (see preceeding item) would be available only for specified purposes, particularly for crediting exports, imports from certain developing countries, oil imports, and the sale of domestically produced capital equipment, ships, and consumer durables. Interest rates charged on such credits could be no more than 4 per cent.

Enactment of a law designed to reduce the credit burden of the enterprises and public bodies. The law provided that a major proportion of existing enterprise long-term loans (primarily those covered by rediscount credits) would be ceded to those enterprises on an unlimited term basis at 2.5 per cent annual interest (most were formerly 4 per cent). By the end of November the total amount ceded on this basis was equal to 11 per cent of total outstanding enterprise credit. A significant amount was also ceded to certain public agencies.

National Bank put on sale 1 billion dinar issue of 12 month bills carrying interest rates of 6 per cent. Only commercial banks would be eligible to purchase the bills, which would be used as an instrument of monetary policy.

In order to improve the sales attractiveness of the new federal bond issue (see December 1973), the Federal Executive Council determined that holders of such bonds would be allowed to deduct from certain taxes an amount equal to 6 per cent of the value of the bonds. Also, the bonds could be used as payment of taxes before the maturation of the bonds. Banks would be allowed to accept the bonds as down payment for consumer credit.

Price controls relaxed on textiles and certain other groups of industrial products, e.g. rail equipment, precision instruments, electronic equipment.

Approval of social contract specifying timetable and some basic guidelines for the preparation of the 1976-1980 Economic Plan. The agreement stresses the need to focus attention on priority sectors: electric power, coal, oil, agriculture, basic raw materials, power transmission transportation, and tourism. Work on this medium-term plan should be coordinated with formulation of individual long-term plans for the priority sectors.

Revision of the credit and monetary targets for 1974. In view of the prospects for a larger increase in nominal social product during the year than originally expected the monetary growth target was raised from 22-24 per cent to 26 per cent. Given also the unexpectedly large rise in the balance of payments deficit, the projected commercial credit bank credit growth target was increased from 37.1 billion dinars to 58.1 billion.

Decision enabling the commercial banks to obtain National Bank rediscount coverage for up to 40 per cent (previously 30 per cent) of credits provided by the commercial banks for financing seasonal stocks of wheat. At the same time the percentage of reserves that were freed by the May decreases in reserve requirements and which could be used for financing of oil imports was increased.

Decision passed specifying the functions and increasing the responsibilities of the National Bank and its branches in overseeing and verifying that the operations of the commercial banks are in accord with existing regulations and policies.

July

Substantial increases in wheat and other basic agricultural prices. Considered justified on the basis of the need to increase incentives for agricultural production, it was estimated that with the pass-through of these prices the result would be to add 3.2 points to the cost of living.

In order to help reduce the balance of payments deficit, the Federal Executive Council established a measure requiring 25 per cent advance deposits on imports of raw materials and intermediate products not subject to volume or value limitations. The deposits would be held with the National Bank for 12 months and would not carry interest. Exempted from the requirement were parts and equipment for ships built for export, certain food products to be added to national reserves, and goods covered under special long-term agreements with foreign countries.

Requirement of frozen dinar deposit on loans obtained abroad (see March) eliminated where the loans obtained would be used for payments to foreign enterprises for mineral exploration.

August

In further moves expanding the availability of selective credits, the National Bank increased the percentages of rediscount coverage obtainable on agricultural credits and the term lengths for rediscounts on credits for certain exports. Also, the portion of the funds freed in the reductions of reserve requirements (see May) which could be used for crediting oil imports was increased.

In further balance of payments measures, a substantial number of food products and manufactured consumer goods included in a category requiring special approval for importation. Also, the foreign exchange quotas for the importation of consumer goods reduced by about 15 per cent. At the same time, tariffs were decreased on some other products, mainly bottleneck investment goods.

Import deposit requirements (see July 1974) extended to a number of consumer and some investment goods. The deposits for most products were set at 30 per cent, though some products required 50 per cent deposits. (These deposit requirements applied to approximately 5 per cent of the total value of imports).

National Bank decision to pay 3 per cent interest on required reserves (previously 2 per cent).

Completion of social contract on employment abroad. The contract requires that all recruiting for employment abroad be handled through the employment agencies in Yugoslavia. Employment would be permitted only where the salaries and working conditions offered the Yugoslav citizens would be in accord with local standards in the employing country. Priorities in filling positions offered abroad would be accorded to workers in the following order: 1) workers without qualifications who have had regular employment earlier (socialist sector) but who are now registered as in search of employment; 2) workers without qualifications who have not had regular positions earlier and who are now registered as in search of employment; 3) workers who have some qualifications but whose skills are not in a category classified as in short supply and whom the employment bureau cannot offer a suitable alternative position in Yugoslavia. The employment bureaus may not offer positions abroad to workers who have vacated positions in Yugoslavia in order to work abroad. Only those persons who could show proof that their dependents in Yugoslavia would be cared for would be offered positions. Annual plans for employment abroad would be subsequently drawn up specifying the number of workers to be allowed to leave from different republics and districts. Republics and localities would establish programmes to provide for the employment of returning workers.

Decision permitting foreign enterprises and individuals to hold deposits in convertible currencies. These deposits could be used to make disbursements in dinars or in foreign exchange within Yugoslavia or for tranfers outside the country. Under certain conditions Yugoslav banks might also maintain clearing account currencies in deposits for foreigners.

September

Bank regulation requiring commercial banks to utilize an increased percentage of their own funds for the crediting of exports before they would be allowed to borrow abroad.

Decision allowing the republic units of the National Bank to maintain their reserve funds (amounting to 180 million dinars) in the form of federal bonds.

October

National Bank allowed a devaluation of the Yugoslav dinar of approximately 7.2 per cent, from 16.12 to 17.28 dinars per US dollar, on the weekly foreign exchange market held among the authorised banks in Belgrade. (While the value of the dinar in principle fluctuates in accord with the supply and demand for other currencies on this market, the National Bank sets " intervention buying and selling rates " for any given market. It was these intervention rates which were altered by the National Bank's action). The official parity rate, used largely for bookkeeping purposes, remained at 17 dinars per dollar.

In view of the large withdrawals of primary money through foreign exchange transactions, the National Bank determined some deposits on foreign credits and loans would be returned to the depositors. Available rediscount coverage for export credits was increased substantially. It was also decided that reductions in reserve requirements would be implemented in the fourth quarter.

Revision of the Federal Budget for 1974. This revision due mainly to higher expenditures particularly in connection with customs rebates and other export incentives, premiums on agricultural production, and pension fund outlays. The increase in federal expenditures would, according to the rebalanced document, amount to 34 per cent as compared to 17 per cent in the original budget. The revenue coverage would come primarily from borrowing from the National Bank and larger bond issues.

Republic Assembly of Serbia passed series of measures designed to reduce what was considered the excessive growth of tax payments of enterprises. These measures would also require government bodies and agencies in the republic to return to the enterprises 2.1 billion dinars in taxes paid in 1975.

November

Reduction of reserve requirements on sight deposits, as well as time deposits and certificates of deposits on terms of one year or less from 28.5 per cent to 27 per cent. At the same time, outstanding National Bank short-term credits to the Export Fund (federal agency for crediting and guaranteeing exports) were transformed into 25-year loans at 3 per cent interest with repayment beginning 1st December 1976. Also, the permissible utilisation of funds freed from reserve requirements for crediting agricultural stocks and production increased.

Federal Executive Council adopted a series of measures designed to reduce petroleum consumption and costs. These include lower speed limits for autos and trucks, limitations on the introduction of new bus lines, reductions of customs on imported equipment for oil production and savings, price adjustments, and restrictions on the export of petroleum derivatives. Another group of measures will recommend to the Republics measures to conserve petroleum, including rationalization of truck transport and substitution of inland waterway transport where possible. It was estimated that these measures might result in a savings of 1 million tons of petroleum imports in 1975.

December

Reduction in reserve requirements in November followed by a further reduction, from 27 per cent to 25.5 per cent. This reduction would free a total amount of 3.6 billion dinars, of which 1.2 billion would be channelled into credits for the purchase of the 1974 corn crop.

Federal Budget and Policy Resolution for 1975 approved. The Resolution called for a reduction in the growth of public and private consumption, in order to improve the foreign balance, along with a continued high increase in investment, in order to maintain a high growth level and to assure needed structural changes. The rate of inflation expected would again be over 20 per cent.

Yugoslav-West German accord providing Yugoslavia with a long-term loan on concessionary terms of 700 million marks.

Federal Executive Council submitted to the Federal Assembly a draft law designed to deal with the liquidity problem. The two main provisions of the law would:

1 prescribe mandatory reductions in the book value of inventories held for more than one year, and
2 shorten from 90 to 60 days the period during which payments for deliveries must be made before deductions are applied to the seller's calculated income.

STATISTICAL ANNEX

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Table A Origin of Gross Domestic Product

Millions of dinars

	1965	1966	1967	1968	1969	1970	1971	1972	1973[1]
	Standardized definitions and concepts (current prices)								
Agriculture, forestry and fishing	20 030	26 004	25 014	23 310	27 129	29 612	37 346	43 273	59 250
Mining and quarrying	2 820	3 240	3 217	3 425	3 460	4 103	5 503	6 860	8 900
Manufacturing	25 700	30 805	30 293	33 954	39 086	48 590	63 889	77 570	98 514
Construction	7 600	9 826	11 550	13 348	15 180	19 490	25 108	29 888	33 600
Transportation and communication	5 920	7 001	7 588	8 108	9 463	12 391	16 281	19 254	23 600
Other activities	23 120	27 892	31 766	37 313	46 856	53 155	67 933	83 135	103 840
Gross domestic product at factor cost	85 190	104 768	109 428	119 458	141 174	167 341	216 060	259 980	327 704
	Yugoslav definitions and concepts (1966 prices)								
Agriculture, forestry, fishing	22 169	26 155	26 144	25 342	27 714	26 295	28 250	27 942	30 311
Industry	32 510	34 058	34 321	36 665	41 017	45 106	49 981	53 581	57 010
Construction	8 080	8 619	9 273	9 953	10 850	11 847	12 084	12 531	12 310
Transportation and communication	6 720	7 106	7 702	8 173	8 846	9 641	10 470	10 789	11 516
Trade, catering and tourism	16 469	17 613	18 501	19 610	21 925	24 141	26 745	28 328	29 112
Handicrafts	4 825	5 010	5 157	5 420	5 763	6 113	6 517	6 976	7 348
Communal activities (Productive Portion)	466	491	477	488	529	583	611	644	660
Social product, total (social and private sector)	91 239	99 052	101 576	105 652	116 644	123 726	134 658	140 791	148 267

1 Provisional estimates.

Source : Direct communication to the OECD and S.Z.Z.S. (Federal Institute of Statistics), *Statisticki Godisnjak.*

Table B National Product and Expenditure

Millions of dinars

	1965	1966	1967	1968	1969	1970	1971	1972	1973[1]
	Standardized definitions and concepts (current prices)								
Consumers' expenditure	43 600	56 512	63 406	69 238	79 944	95 593	121 722	151 687	187 146
Government current expenditure	14 840	17 607	20 107	23 000	26 054	30 484	36 686	45 290	52 742
Gross domestic fixed asset formation	21 788	26 616	30 283	35 044	41 049	51 723	64 651	74 107	85 324
Final domestic demand	80 228	100 735	113 796	127 282	147 047	177 800	223 059	271 084	325 212
Change in stocks	10 760	12 410	5 736	3 913	7 297	13 638	21 983	14 702	31 957
Exports of goods and services (non-factor)	18 871	21 155	22 184	23 212	27 383	31 841	42 909	59 206	76 436
less: Imports of goods and services (non-factor)	18 320	21 965	23 852	25 191	29 894	40 494	56 291	64 996	87 951
Residual error	–259	–431	604	755	1 034	–867	3 651	3 166	8 010
Gross domestic product at market prices	91 280	111 904	118 468	129 971	152 867	181 918	235 311	283 162	353 664
	Yugoslav definitions and concepts (current prices)								
Consumers' expenditure	40 168	50 510	56 897	61 921	71 706	86 305	110 514	137 025	168 900
Collective consumption	7 205	8 137	10 008	11 689	13 409	14 689	17 508	21 286	26 700
Gross domestic fixed asset formation	21 788	26 616	30 283	35 044	41 049	51 723	64 651	73 977	85 300
Final domestic demand	69 161	85 263	97 188	108 654	126 164	152 717	192 673	232 288	280 900
Change in stocks	10 760	12 410	5 736	3 913	7 297	13 638	21 983	14 500	32 000
Foreign balance and residual error	–406	1 379	786	–595	–1 501	–9 148	–10 180	–1 393	–6 500
Social product	79 515	99 052	103 710	111 972	131 960	157 207	204 476	245 395	306 400
	Yugoslav definitions and concepts (1966 prices)								
Consumers' expenditure	49 785	50 510	54 209	56 147	60 547	65 641	71 529	73 600	75 600
Collective consumption	9 061	8 137	8 957	9 599	10 463	10 846	11 095	13 000	13 600
Gross domestic fixed asset formation	25 543	26 616	28 344	30 625	32 521	38 250	40 718	42 100	43 250
Final domestic demand	84 389	85 263	91 510	96 371	103 531	114 737	123 342	128 700	132 450
Stocks, foreign balance and residual error	8 385	13 789	10 066	9 281	13 113	8 989	11 329	11 900	15 450
Social product	92 774	99 052	101 576	105 652	116 644	123 726	134 671	140 600	147 900

1 Provisional estimates.

Source: Direct communication to the OECD.

Table C Gross Fixed Investment
Millions of dinars, current prices

	1965	1966	1967	1968	1969	1970	1971	1972	1973[1]
TOTAL	22 050	27 649	30 620	35 698	42 266	53 103	65 623	75 079	86 732
Private sector	2 900	4 663	5 795	6 589	7 423	9 657	13 064	16 281	22 304
Social sector	19 150	22 986	24 825	29 109	34 843	43 446	52 559	58 798	64 428
by activity:									
Productive	13 357	18 856	22 273	25 979	31 217	37 565	46 537	52 245	59 721
Non-productive	8 693	8 793	8 347	9 719	11 049	15 538	19 086	22 834	27 011
by industry:									
Agriculture and forestry	2 107	2 502	2 530	2 912	3 299	3 818	4 722	5 687	8 282
Industry	6 964	9 339	11 171	12 662	13 599	16 372	21 217	24 443	26 310
Building	310	639	728	881	1 365	1 642	2 049	2 563	2 722
Transportation	2 221	3 725	4 123	5 240	7 237	8 393	9 103	9 995	12 803
Trade, catering, tourism	992	1 573	2 537	2 175	4 274	5 791	7 291	6 464	5 818
Housing, communal activities	6 610	7 465	7 182	8 276	9 474	12 438	15 332	18 512	23 092
Other social sector	2 846	2 406	2 349	2 552	3 018	4 649	5 909	7 415	7 705
by type of asset:									
Machinery and equipment	6 879	9 854	12 419	13 804	16 765	20 162	24 992	28 297	33 867
Domestic	4 678	6 156	7 009	7 862	9 620	11 742	13 840	16 525	18 894
Imported	2 201	3 698	5 410	5 942	7 145	8 420	11 152	11 772	14 973
Building	12 143	15 526	16 478	19 582	22 901	30 392	38 219	43 456	47 577
Other	3 028	2 269	1 723	2 312	2 600	2 549	2 412	3 326	5 288

1 Provisional estimates.

NOTE Figures include expenditures for already-existing assets. Figures for 1965 indicate payments for investments in fixed assets. Figures for subsequent years indicate realised investments i ndependent of the dates of payment.

Source: Direct communication to the OECD.

Table D National Income and the Household Account

Yugoslav definitions and concepts

Millions of dinars

	1968	1969	1970	1971	1971
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	50 126	59 173	70 798	89 229	107 113
Taxes on income and Social Security payments	17 404	20 981	24 625	29 688	35 437
Interest and enterprise taxes	21 073	25 493	29 813	36 284	45 879
Accumulation of productive enterprises and individual producers	12 969	14 043	17 599	30 937	32 530
National income	101 573	119 690	142 835	186 138	220 959
plus: Depreciation	10 399	12 270	14 372	18 338	24 436
Social product	111 972	131 960	157 207	204 476	245 395
Net wages and salaries of employees in productive enterprises and production of individual producers for own consumption	50 126	59 173	70 798	89 229	107 113
Net wages and salaries of employees in non-productive enterprises	11 623	13 497	16 012	20 054	24 149
Receipts from Social Security and other welfare funds	10 461	12 448	14 556	18 146	23 688
Other domestic transfer receipts	304	894	781	964	1 067
Net transfers from abroad	2 209	3 388	6 599	11 452	17 403
Total income received	74 723	89 400	108 746	139 845	173 420
Consumers' expenditure on goods and services of productive sector	53 328	62 110	75 783	98 107	122 162
Consumption of self-produced commodities	8 593	9 596	10 522	12 407	14 863
Consumer payments to non-productive sector	5 793	7 044	8 384	10 127	12 018
Savings	7 009	10 650	14 057	19 204	24 377

Source: S.Z.Z.S., *Statisticki Godisnjak.*

Table E Agriculture

	Unit or base	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Indices of agricultural output	1951-55 = 100										
Total		167	152	176	174	167	183	175	187	184	197
Crop production		167	148	186	177	166	190	167	180	179	195
Livestock production		155	159	163	173	171	173	190	194	197	209
Production of selected commodities											
Wheat	Mill. metric tons	3.7	3.5	4.6	4.8	4.4	4.9	3.8	5.6	4.8	4.8
Maize	—	7.0	5.9	8.0	7.2	6.8	7.8	6.9	7.4	7.9	8.3
Sugar beet	—	2.8	2.6	4.0	3.7	2.9	3.6	2.9	3.0	3.3	3.3
Meat	Thousand metric tons	657	757	686	751	818	770	811	880	817	839
Forestry cuttings	Mill. cubic metres	17.2	17.4	17.1	16.4	17.6	17.1	17.5	17.9	17.4	17.4
Number of tractors in use[1]	Thousand	50.0	51.3	51.0	55.9	61.7	68.2[2]	80.0	96.7	120.5	150.0
Consumption of fertilizers	Thousand metric tons	1 904	2 010	2 190	2 141	1 918	1 820	1 678	1 747	1 821	1 919

1 At end of year.
2 Based on census returns for private holdings and not strictly comparable with estimates for earlier years.
Source: Direct communication to the OECD.

Table F **Industrial Production**

	Unit or base	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Indices of industrial production	1953 = 100										
Total		410	427	426	453	504	550	607	654	693	767
Mining		271	271	263	275	293	314	338	346	367	389
Manufacturing		434	454	452	481	537	585	646	697	739	820
Basic metals		462	487	487	527	586	645	697	778	850	967
Metal products		434	442	425	463	500	561	614	642	691	784
Chemicals		1 036	1 181	1 205	1 398	1 706	1 979	2 315	2 616	2 888	3 353
Textiles		368	397	384	395	417	436	468	516	546	587
Food, drinks, tobacco		347	367	374	373	399	439	487	521	553	596
Output of selected commodities											
Electricity	Billion kWh	15.5	17.2	18.7	20.6	23.4	26.0	29.5	33.2	35.1	39.5
Lignite	Million metric tons	28.8	28.2	25.6	25.9	25.8	27.4	29.8	30.3	31.9	33.0
Petroleum products	—	2.9	4.1	4.5	4.5	5.7	7.1	8.6	8.4	9.1	10.4
Copper ore	—	6.0	5.6	5.9	7.0	8.1	9.4	10.3	11.9	14.2	14.9
Lead ore	Thousand metric tons	106	103	108	112	118	127	124	120	119	120
Zinc ore	—	92	85	90	95	97	101	99	97	97	95
Crude steel	Million metric tons	1.8	1.9	1.8	2.0	2.2	2.2	2.5	2.6	2.7	2.8
Cement	—	3.1	3.2	3.3	3.8	4.0	4.4	5.0	5.8	6.2	6.6
Metal and wood-working machines	Thousand metric tons	11.0	10.3	9.8	8.0	9.9	10.9	12.6	15.9	12.5	15.5
Building machines	—	13.0	16.9	13.1	15.4	23.4	26.8	28.4	28.0	34.4	34.6
Rotating machines	—	11.0	13.9	13.1	14.5	15.3	21.5	26.0	26.8	30.7	34.3
Pulp and cellulose	—	378	407	455	468	475	450	489	517	527	560
Cotton fabrics	Mill. sq. metres	394	416	478	401	415	390	391	374	361	365

Source: Direct communication to the OECD.

Table G Labour Force, Employment, Productivity

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974[3]
	Thousand									
Active population (mid-year estimate)	8 571	8 625	8 678	8 730	8 782	8 830	8 890	9 028	9 054	9 121
Paid employment	3 662	3 582	3 561	3 587	3 706	3 850	4 034	4 210	4 316	4 513
Registered unemployment	267	265	291	327	316	290	290	334	382	446
Other labour force[1]	4 888	5 089	5 216	5 286	5 307	5 249	4 465	4 431	..	..
Worker emigration (net)	20	26	27	57	124	240	..	..	..	..
Yugoslav workers employed in Germany[2]	64	97	94	106	223	374	412	..	..	..
Paid domestic employment by sector:										
Social sector	3 583	3 491	3 466	3 487	3 622	3 765	3 944	4 115	4 213	4 422
Productive activities	2 990	2 899	2 877	2 884	2 995	3 113	3 261	3 401	3 471	3 644
Non-productive activities	593	592	589	603	627	652	683	714	742	778
Private sector	79	91	95	100	84	85	90	95	93	91
Paid domestic employment by industry:										
Agriculture	315	295	276	255	246	242	241	244	247	258
Industry	1 377	1 358	1 352	1 349	1 399	1 454	1 531	1 614	1 665	1 754
Construction	335	313	312	323	333	347	356	364	357	377
Transportation and communication	251	246	249	253	260	269	280	289	297	305
Trade	349	351	366	379	402	433	473	507	532	563
	Percentage change from previous year									
Output per person employed in productive non-agricultural activities	3.3	7.9	3.4	5.0	6.5	4.8	3.6	1.3	2.4	
of which: Industry	2.9	6.2	1.4	7.0	8.1	5.6	5.2	1.7	3.1	

1 Including Yugoslav workers temporarily employed abroad.
2 Averages of end-quarter surveys.
3 Provisional estimates.

Sources: Direct communication to the OECD and S.Z.Z.S., *Statisticki Godisnjak.*

Table H Prices and Wages
Indices, 1969 = 100

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
Agricultural producer prices	84	98	95	91	100	115	145	180	225	260
Industrial producer prices	85	95	97	97	100	109	126	140	158	205
Materials	72	84	94	96	100	112	132	146	165	228
Capital goods	93	97	99	99	100	105	118	126	138	155
Consumer goods	85	95	96	96	100	107	121	136	154	188
Export unit values	94	97	98	96	100	109	114	121	144	191
Import unit values	94	95	95	95	100	108	112	118	142	207
Cost of living										
Total	67	82	88	93	100	111	128	149	178	216
of which:										
Food	73	87	90	93	100	112	131	156	190	220
Services	52	68	79	89	100	108	122	134	156	186
Wage per person employed in social sector	51	70	79	87	100	118	143	169	196	251

Source: Direct communication to the OECD.

Table I Balance Sheet of the Banking System
Millions of dinars, end of period

	1969	1970	1971	1972	1973				1974			
					I	II	III	IV	I	II	III	IV
ASSETS												
Short-term, total	56 484	65 704	71 565	95 491	101 762	106 476	118 657	120 340	123 694	125 530	135 851	
Gold and foreign exchange	4 535	3 332	6 032	15 600	17 796	21 609	27 004	26 944	24 361	21 846	28 258	
Other foreign exchange assets	4 010	3 474	4 568	6 435	6 582	7 835	8 392	6 761	5 876	4 875	5 076	
Short-term credit to enterprises	41 649	50 138	43 811	56 533	59 626	58 006	61 015	63 764	72 437	74 518	77 012	
Short-term credit to governments and other public institutions	202	749	2 743	2 717	2 778	2 272	2 293	2 029	1 231	1 122	1 191	
Consumer credit and other short-term credits to the public	4 901	6 937	6 970	6 309	6 194	6 834	7 411	8 032	8 543	9 855	10 792	
Other short-term assets	1 187	1 074	7 441	7 897	8 786	9 920	12 542	12 810	11 246	13 314	13 522	
Long-term, total	103 710	128 972	168 972	201 302	206 609	224 746	233 304	240 903	246 871	258 562	271 181	
Foreign exchange claims	2 439	3 384	6 374	6 707	6 869	6 938	7 102	7 390	7 949	8 773	9 930	
Credits to enterprises	64 831	78 990	104 920	121 093	122 889	135 847	141 301	142 030	143 670	149 882	156 217	
Credits to governments and public institutions[1]	12 683	15 575	17 396	28 162	29 874	32 394	32 796	37 382	41 668	43 182	43 965	
Loans for housing construction	17 163	21 617	25 869	30 480	31 274	32 183	33 580	35 215	36 273	38 145	40 861	
Other	6 594	9 406	14 413	14 860	15 703	17 384	18 525	18 886	17 311	18 580	20 208	
Total	160 194	194 676	240 537	296 793	308 371	331 222	351 961	361 243	370 565	384 092	407 032	
LIABILITIES AND CAPITAL FUNDS												
Short-term, total	70 448	85 548	108 980	140 405	150 334	165 025	177 779	183 282	192 438	198 819	210 282	
Foreign exchange liabilities	8 919	11 674	21 610	23 078	24 820	26 975	27 703	26 959	27 526	29 132	30 691	
Money supply[2]	30 828	37 029	42 546	60 541	64 095	70 932	78 757	82 774	87 540	92 173	98 870	
Other short-term deposits	28 573	33 750	41 181	48 613	51 942	53 701	55 646	61 155	62 382	62 002	64 685	
Other short-term liabilities	2 128	3 095	3 643	8 173	9 477	13 417	15 673	12 394	14 990	15 512	16 036	
Long-term, total	70 145	87 816	108 859	129 804	133 810	140 105	145 380	177 961	178 127	185 273	196 750	
Foreign exchange liabilities	3 743	5 949	12 977	20 778	23 321	26 203	26 940	29 473	30 056	30 179	34 408	
Time deposits and securities[3]	20 450	26 509	29 559	30 464	30 443	30 942	31 644	32 750	33 519	34 714	35 857	
Special investment deposits	45 952	55 358	66 323	78 562	80 046	82 960	86 796	85 610	86 720	90 482	94 298	
Capital and reserve funds	19 601	21 312	22 698	26 584	24 227	26 092	28 802	30 128	27 832	29 898	32 187	
Total	160 194	194 676	240 537	296 793	308 371	331 222	351 961	361 243	370 565	384 092	407 032	

1 Also contains small amount of loans to public.
2 Contains demand deposits, currency in circulation, and float.
3 Maturities greater than one year.

Source: Sluzba Drustvenog Knjigovodstva, *Statisticki Bilten.*

Table J **Imports and Exports by Commodity Groups**
Millions of US dollars

		1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974
SITC SECTIONS												
	Imports											
0 and 1	Food, drink and tobacco	167	189	237	182	128	147	207	296	308	508	666
	of which: Cereals and cereal preparations	69	97	109	36	18	26	18	100	73	57	213
2	Raw materials	211	216	212	199	198	264	314	312	336	486	1 004
	of which: Textile fibres and waste	115	117	107	105	97	135	110	118	137	193	419
3	Mineral fuels	66	72	82	85	98	104	138	193	176	358	951
5	Chemicals	138	118	150	167	188	221	267	297	349	450	811
6	Semi-manufactures	277	279	370	402	427	544	826	917	844	1 081	1 806
	of which: Base metals	150	154	192	195	184	254	427	469	427	642	1 064
7 and 8	Finished manufactures	447	399	514	642	738	846	1 102	1 187	1 170	1 598	2 239
	of which: Machinery	336	277	349	396	464	516	629	768	785	981	1 382
	Transport equipment	62	78	110	175	181	208	326	250	233	434	576
4 and 9	Other	16	14	10	31	19	8	20	51	49	30	65
	Total	1 322	1 287	1 575	1 707	1 796	2 134	2 874	3 252	3 233	4 511	7 542
	Exports											
0 and 1	Food, drink and tobacco	265	280	296	336	261	289	314	319	392	459	412
	of which: Live animals and meat	147	169	164	175	142	159	159	176	247	251	148
	Cereals and cereal preparations	2	6	29	54	26	20	21	11	8	62	73
2	Raw materials	115	110	108	106	127	142	157	149	184	275	360
	of which: Wood	56	53	54	50	54	63	64	66	84	157	183
5	Chemicals	38	59	70	74	77	91	97	129	143	176	384
6	Semi-manufactures	205	248	282	281	324	431	492	494	603	814	1 245
	of which: Base metals	89	108	128	122	155	208	256	246	308	526	881
7 and 8	Finished manufactures	257	382	443	429	460	503	595	698	886	1 088	1 342
	of which: Machinery	87	123	149	149	148	165	192	242	301	365	491
	Ships	41	79	89	59	82	101	142	136	162	178	248
3, 4 and 9	Other	14	12	21	27	15	18	24	26	29	41	62
	Total	891	1 092	1 220	1 252	1 264	1 474	1 679	1 814	2 237	2 853	3 805

Source: Direct communication to the OECD.

Table K Exports and Imports by Area
Millions of US dollars, monthly rate

	1966	1967	1968	1969	1970	1971	1972	1973	1974
					Exports, fob				
OECD countries	49.44	53.80	54.67	68.38	78.31	79.96	105.96	132.29	
EEC	32.53	35.17	34.87	46.89	54.60	53.77	67.38	85.12	
Italy	14.46	18.78	14.71	18.86	21.21	18.80	25.67	38.83	35.73
Germany	9.52	8.06	10.13	13.52	16.46	17.50	21.99	26.71	30.30
United states	6.24	6.64	7.45	7.79	7.46	9.04	12.52	19.38	26.31
Other	10.67	11.99	12.35	13.69	16.24	17.15	26.06	27.79	
Sino-Soviet area	37.31	37.86	36.20	37.88	45.44	55.53	67.22	80.95	132.58
of which: USSR	16.14	18.23	17.25	17.20	20.13	27.21	27.45	34.05	55.99
Other developed countries	—	—	—	0.15	0.17	0.02	0.02	0.25	
Developing countries	15.15	12.75	14.08	16.51	16.00	15.05	13.24	24.26	43.58
in Europe	0.05	0.09	0.08	0.10	0.80	0.10	0.10	0.06	0.09
in Africa	4.77	3.79	4.37	4.79	5.01	5.67	4.56	9.37	14.25
in America	1.33	1.46	1.63	3.24	1.87	3.48	3.58	5.33	5.18
in Far-East	6.38	4.32	5.41	5.28	5.41	3.43	1.71	4.67	13.88
in Middle-East	2.61	3.08	2.60	3.10	2.90	2.36	3.29	4.83	10.18
Total	101.91	104.41	104.95	122.92	139.91	150.55	186.43	237.75	317.08
					Imports, cif				
OECD countries	73.68	89.50	95.48	114.71	164.66	178.04	175.61	228.42	
EEC	41.66	62.80	66.31	80.29	111.18	119.62	118.60	158.93	
Italy	14.03	18.99	22.39	26.43	31.50	32.99	33.33	44.22	74.22
Germany	12.94	23.82	26.65	32.39	47.26	51.44	50.35	71.36	113.36
United States	16.65	10.34	7.51	7.71	13.35	16.54	16.54	15.56	29.52
Other	15.37	16.36	21.66	26.71	40.13	41.88	40.47	53.93	
Sino-Soviet area	41.54	38.23	40.75	42.57	49.44	64.89	66.71	92.92	146.18
of which: USSR	12.27	13.65	15.68	14.02	16.10	23.45	23.58	33.90	62.65
Other developed countries	0.15	0.18	0.18	0.21	0.41	0.34	0.41		
Developing countries	15.94	14.38	13.26	20.43	24.99	28.09	26.23	47.59	104.99
in Europe	—	—	—	—	—	—	—	—	—
in Africa	4.32	3.99	3.91	6.04	6.49	7.09	8.34	11.91	24.33
in America	4.84	4.53	3.71	4.24	6.79	6.50	7.71	15.60	22.65
in Far-East	3.60	3.30	3.15	5.44	5.88	6.96	5.43	5.25	12.57
in Middle-East	3.17	2.57	2.49	4.71	5.84	7.54	4.75	14.83	45.44
Total	131.30	142.30	149.68	177.90	239.50	271.34	268.96	375.92	628.50

Source: Direct communication to the OECD.

Table L **Balance of Payments**
Millions of US dollars

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Trade balance	–278	–433	–195	–351	–454	–532	–659	–1 195	–1 435	–992	–1 658
Exports, fob	802	895	1 094	1 225	1 253	1 265	1 475	1 678	1 817	2 241	2 853
Imports, cif	–1 080	–1 328	–1 289	–1 576	–1 707	–1 797	–2 134	–2 874	–3 252	–3 233	–4 511
Services and private transfers	193	210	235	301	367	426	594	847	1 079	1 412	2 144
Transportation[1]	81	97	118	140	145	146	171	211	224	240	323[4]
Foreign travel	44	55	63	82	95	136	168	144	141	219	589[4]
Investment income	–34	–48	–60	–70	–74	–80	–90	–119	–139	–155	–181
Private transfers and workers' remittances[2]	59	52	55	63	160	191	284	544	789	1 049	1 413
Other services[1, 2]	43	54	59	86	41	33	61	66	64	59	
Official transfers	5	20	30	11	12	11	2	1	–1	–1	–1
Current balance	–80	–203	70	–39	–75	–95	–63	–348	–357	419	485
Non-monetary capital (including errors and omissions)	56	68	–85	84	141	49	138	279	132	–14	301
Long-term loans net[3]	–61	121	83	84	128	102	145	223	434	326	563
Other (including errors and omissions)	–5	–53	–168	0	–13	–53	–7	46	–302	–340	–262
Allocation of SDR's	—	—	—	—	—	—	—	25	22	22	—
Monetary movements	24	135	15	–45	–66	46	–75	44	203	–427	–786
Bilateral balances	13	40	–80	–28	–94	48	63	71	—	–110	—
Net gold and foreign exchange position	–10	–3	–2	–2	6	–33	–117	118	–73	–539	–658
National Bank and commercial banks' credit, net IMF account, SDR's	21	98	97	–15	22	31	–21	–145	276	222	–128

1 From 1963 to 1966 insurance for transported goods is included in " other services ". For later years such insurance is included in " transportation ".
2 For the years 1963-1966 workers' remittances are included in " other services ". For years beginning in 1967 remittances are included with private transfers.
3 Due to definitional changes in this category, the data for 1963-1966 are not comparable with those of later years.
4 Due to changes in coverage, figure for 1973 is not fully comparable with those for earlier years.

Sources: IMF, *Balance of Payments Yearbook*, and direct communication to the OECD.

INTERNATIONAL COMPARISONS

BASIC STATISTICS : INTERNATIONAL COMPARISONS

			Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece	Iceland	Ireland
Population	Mid-1973	Thousands	13 132	7 521	9 742	22 125	5 027	4 643 [2]	52 177	61 967	8 972	212	3 051
Net average annual increase	1963 to 1973	%	1.87	0.48	0.48	1.55	0.71	0.26	0.88	0.77	0.57	1.37	0.68
Employment Total civilian	1973	Thousands	5 640	3 039	3 818	8 759	2 385	2 153	20 953	26 202	(3 320)	(88)	1 042
Agriculture		% of total	7.2	16.1	3.9	6.5	9.5	17.1	12.2	7.5	(34.1)	(15.9)	25.1
Industry [6]		% of total	35.5	40.1	43.3	31.3	33.8	35.7	39.3	49.5	(25.7)	(37.5)	30.7
Other		% of total	57.3	43.8	52.8	62.2	56.7	47.1	48.5	43.0	(40.2)	(46.6)	44.2
Production GDP [7] per head	1973	$ [8]	4 900	3 550	4 650	5 410	5 460	3 720	4 900	5 610	1 790	4 870	2 130 [13]
GDP by sector: Agriculture	1973	% of total	7.1 [9 10 11]	5.8	3.9	5.2 [11]	8.2 [11]	12.0	6.3	2.9	20.4 [11]	..	18.0 [11 13]
Industry		% of total	41.4 [9 10 11]	50.1	40.1	36.2 [11]	39.9 [11]	44.2	93.7	52.1	32.4 [11]	..	33.8 [11 13]
Other		% of total	51.5 [9 10 11]	44.1	56.1	58.6 [11]	51.9 [11]	43.8		45.0	47.2 [11]	..	48.2 [11 13]
GDP [7 14] annual volume growth	1973	%	5.6	5.5	5.4	6.8	3.9	6.0	6.0	5.3	9.4	6.2	7.2
	1968 to 1973	%	5.1	6.4	5.5	5.2	4.7	6.8	6.0	5.1	8.9	6.3	4.6
Indicators of living standards Private consumption per head	1973	$	2 850	1 870	2 810	3 080	3 050	1 910	2 913	3 000	1 200	2 990	1 370
Public expenditure on education	1970	% of GNP	4.3	4.7	5.4 [15]	8.6	7.0	6.3	4.7	4.0	2.2	4.3	4.8 [15]
Dwellings completed, per 1 000 inhabitants	1972	Number	11.1	6.4	5.4 [17]	10.6	10.0	10.8	10.5	10.7	14.0 [10]	9.0	6.9
Passenger cars, per 1 000 inhabitants	1971	Number	314	177	212	321	231	163	260	239	30	222	140
Television sets, per 1 000 inhabitants	1972	Number	227	226	236	349 [10]	282	256	237	293	31 [10]	220	173
Telephones, per 1 000 inhabitants	1972	Number	340	226	240	499	377	295	199	268	160	370	114
Doctors, per 1 000 inhabitants	1971	Number	1.25	1.87	1.60	1.50	1.41 [12]	1.11	1.38	1.71 [12]	1.67	1.44	1.09 [15]
Gross fixed investment [14] Total	1968-72 average	% of GDP [7]	25.8 [9]	29.0	20.8	21.4 [18]	23.6	24.1	26.3	25.9	25.7 [19]	28.7	24.2
Machinery and equipment		% of GDP [7]	10.9	12.5	8.8	7.9	12.1	8.9	12.0	12.4	8.2	8.6	12.2
Residential construction		% of GDP [7]	5.2	16.5 [24]	4.7	4.4	4.6	5.8	6.5	5.2	8.0	5.3	4.3
Other construction		% of GDP [7]	9.7	— [24]	7.3	9.1	6.9	9.4	7.8	8.3 [25]	9.5	14.8	7.7
Gross saving	1968-72 average	% of GDP [7]	25.9	29.3	24.9	22.3	19.1	29.8	26.8	27.5	23.8	..	20.8
Public sector [26] Total current revenue	1973	% of GDP [7]	28.2 [13]	36.6	35.8 [13]	36.2	44.8	39.0	38.0 [13]	41.0	26.6 [13]	33.2 [16]	33.7 [13]
Wages/Prices Hourly earnings [27]	Annual increase 1967 to 1972	%	7.6 [28 29]	9.3 [30]	10.2	8.2 [28]	12.4 [31]	11.8	11.3 [32]	9.3 [33]	8.3 [33]	18.3 [28]	13.5 [36]
Consumer prices		%	4.2	4.3	4.0	3.9	6.2	5.5	5.6	3.8	2.6	13.3	7.6
GDP [7] deflator		%	5.8	4.4	4.6	4.0	6.4	6.5	5.5	5.2	2.9	17.2	9.3
Foreign trade Imports [43]	1972	$ million [8]	6 180	6 290	14 570	23 130	6 080	3 680	32 070	51 150	2 530	300	2 240
		% of GDP [7]	13.2	30.9	40.9	21.8	28.6	27.4	16.4	19.9	20.7	39.5	40.6
Exports [43]		$ million [8]	7 500	6 220	15 430	23 750	6 240	3 700	33 760	55 730	1 470	290	1 930
		% of GDP [7]	16.0	30.5	43.4	22.4	29.4	27.5	17.2	21.6	12.0	38.2	35.0
Balance of payments Current balance	1968-72 average	% of GNP	-2.1 [9]	-0.4	2.5 [45]	0.0	-2.1	-1.2	-0.2	0.8	-3.6	-4.2	-3.3
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	88.3	42.4	23.3 [45]	24.7	17.2	14.8	22.8	60.8	30.1	28.1	36.7
Change	Feb. 1974 - Feb. 1975	Mill. SDR's	-1 155	698	696 [45]	-460	-205	-105	601	499	-71	-37	198
Net flow of resources to developing countries [48]	1973	% of GNP	0.55	0.52	1.10	0.93	0.70	— [49]	1.10	0.52	— [50]	— [49]	— [49]
Export performance [51] Growth of markets [52]	1972 to 1973	%	10	14	13	10	12	15	13.5	14.5	14	12	12
	1961-62 to 1971-72 (average)	%	9	9	9	8.5	8	7.5	8.5	8.8	9	8	7.5
Gains or losses of market shares [53]	1972 to 1973	%	-12	-3	2.5 [45]	-1	-5.5	-10	-2	5.5	5	0	-6.5
	1961-62 to 1971-72 (average)	%	4.5	2	1.5 [45]	-2	-0.5	-0.8	1	1	1.5	2.5	0.5

			Italy	Japan	Luxembourg	Netherlands	New Zealand	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States	Yugoslavia [1]
Population	Mid-1973	Thousands	54 888 [3]	108 350 [4]	350	13 438	2 932	3 961	8 564	34 730	8 138	6 431	37 930	56 026	210 404	20 960
Net average annual increase	1963 to 1973	%	0.70	1.22	0.77	1.17	1.46	0.77	-0.46	1.06	0.68	1.09	2.49	0.43	1.07	0.95
Employment Total civilian	1973	Thousands	18 310	52 330	154	4 564	1 137	1 654	(3 109)	12 844	3 879	3 097	13 810	24 553	84 409	8 009 [5 10]
Agriculture		% of total	17.4	13.4	9.0	6.8	12.1	11.4	(28.8)	26.5	7.1	(7.3)	63.4	3.0	4.1	49.5
Industry [6]		% of total	44.0	37.2	48.6	36.2	34.7	33.9	(33.8)	38.0	36.8	(46.2)	15.1	42.3	31.7	50.5
Other		% of total	38.6	49.4	42.4	57.1	53.2	54.7	(37.4)	35.5	56.1	(46.5)	21.5	54.7	64.2	
Production GDP [7] per head	1973	$ [8]	2 510	3 760	5 200	4 410 [13]	4 080 [9a]	4 780	1 250	1 750	6 140	6 190	540	3 100	6 170	792 [13]
GDP by sector: Agriculture	1973	% of total	8.8	5.9	4.4 [11 12]	5.3 [11 13]	18.8 [12]	5.6	16.3 [11]	12.7 [11]	3.8	..	26.1	3.0 [11]	4.4	16.6 [11 13]
Industry		% of total	41.2	48.3	57.5 [11 12]	44.9 [11 13]	28.0 [12]	33.4	43.2 [11]	35.5 [11]	36.6	..	28.8	42.4 [11]	33.9	46.6 [11 13]
Other		% of total	50.0	45.9	38.1 [11 12]	49.8 [11 13]	53.2 [12]	61.0	40.6 [11]	51.8 [11]	59.6	..	45.1	54.6 [11]	61.7	36.8 [11 13]
GDP [7 14] annual volume growth	1973	%	6.4	11.0	7.5	4.2	4.8 [9a]	3.7	7.6	7.4	3.3	3.5	4.6	5.3	5.9	..
	1968 to 1973	%	4.3	9.5	5.2	5.3	3.1 [9a]	4.5	6.4	7.0	3.2	4.6	6.2	2.8	3.6	..
Indicators of living standards Private consumption per head	1973	$	1 620	1 910	2 780	2 430	2 410 [9a]	2 530	900	1 170	3 240	3 640	320	1 960	3 840	425 [13]
Public expenditure on education	1970	% of GNP	4.3	4.1	4.4	7.3 [15]	4.4 [15]	5.9	2.0	2.4	7.8	4.2	2.9	5.5 [15]	5.4 [15]	4.3 [16]
Dwellings completed, per 1 000 inhabitants	1972	Number	4.7	16.8 [17]	5.3 [12]	11.4	9.3	11.1	3.4	9.6	12.8	11.5	2.8	6.1	11.3	6.4
Passenger cars, per 1 000 inhabitants	1971	Number	209	100	296	211	324	206	72	81	290	233	4 [13]	219	443	42
Television sets, per 1 000 inhabitants	1972	Number	202	225	220 [10]	243 [10]	250	241	63	145	333	239	4	305	474	113
Telephones, per 1 000 inhabitants	1972	Number	206	315	361	299	458	320	99	164	576	535	19	314	628	44
Doctors, per 1 000 inhabitants	1971	Number	1.83	1.15	1.07	1.31	1.16	1.45	0.98	1.39	1.36 [12]	1.67	0.45	1.29	1.57 [12]	1.06
Gross fixed investment [14] Total	1968-72 average	% of GDP [7]	19.8	38.7	23.6	25.3	..	..	19.0	24.2	23.1	27.8 [20]	16.9 [21]	19.6	17.0 [22]	..
Machinery and equipment		% of GDP [7]	8.4	32.1 [23]	..	10.5	..	..	8.8	12.8	8.6	9.5	5.8	9.5	7.0 [22]	..
Residential construction		% of GDP [7]	5.9	6.6	..	5.7	..	..	2.7	3.7	5.0	7.1	3.3	3.5	3.5	..
Other construction		% of GDP [7]	5.5	— [23]	..	9.1	..	..	7.5	7.7	9.5	11.2	7.8	6.6	6.5	..
Gross saving	1968-72 average	% of GDP [7]	22.9	39.3	31.3	26.9	24.9 [9a]	27.8	22.0	23.1	22.8	28.9 [20]	21.5 [21]	19.2	17.5	..
Public sector [26] Total current revenue	1973	% of GDP [7]	33.3	22.4	39.1 [13]	49.9	..	- 49.4	23.0	23.4 [13]	50.1 [13]	27.1 [15]	27.5 [13]	37.9 [13]	30.2	..
Wages/Prices Hourly earnings [27]	Annual increase 1967 to 1972	%	11.2 [34]	15.6 [35]	..	10.4 [36]	10.3 [38]	10.0 [31]	10.2 [37]	12.6 [38]	9.9 [39]	6.5 [40]	12.8 [38]	9.6 [41]	6.0 [42]	16.1 [37 38]
Consumer prices		%	3.9	5.8	3.9	6.2	6.5	6.1	8.6	5.8	5.0	4.3	10.5	6.6	4.6	11.3
GDP [7] deflator		%	5.0	4.8	5.9	6.6	6.9 [9a]	..	4.3	6.0	5.2	6.0	10.5	6.6	4.4	..
Foreign trade Imports [43]	1972	$ million [8]	23 600	24 910	1 050	20 100	1 980	5 810	2 630	7 250	9 590	9 710	1 400 [10]	33 620	74 830	3 820
		% of GDP [7]	20.1	8.5	77.8	43.4	23.1	38.3	32.2	16.2	23.2	32.6	10.9	21.8	6.3	23.2
Exports [43]		$ million [8]	24 040	31 800	1 100	21 320	2 320	6 060	2 220	7 190	10 110	9 720	900 [10]	33 350	62 690	3 480
		% of GDP [7]	20.4	10.8	81.5	46.1	27.1	39.9	27.1	16.1	24.4	32.7	7.0	21.6	5.3	21.2
Balance of payments Current balance	1968-72 average	% of GNP	2.1	1.7	—	0.3	1.4	-1.0	3.3	0.5	-0.1	1.3	-0.5	0.8	-0.2	..
Official reserves [44], end-1973: per cent of imports of goods in 1973		%	23.1	32.0	—	26.9	119.8	25.3	99.1	70.3	23.9	69.5	102.8	16.7	20.8	32.9
Change	Feb. 1974 - Feb. 1975	Mill. SDR's	828	1 218	—	854	-97	-146	-432 [46]	-386 [47]	-665	1 045	-621	856	1 075	-84
Net flow of resources to developing countries [48]	1973	% of GNP	0.46	1.42	— [49]	1.03	0.35	0.49	2.25	— [50]	0.73	0.72	— [50]	0.76	0.58	— [50]
Export performance [51] Growth of markets [52]	1972 to 1973	%	13	14	—	13	10	13	12	13.5	13	14	14	14.5	20	..
	1961-62 to 1971-72 (average)	%	9	9	—	9	..	8	7	8.5	8	9	8.5	8.5	8	..
Gains or losses of market shares [53]	1972 to 1973	%	-8.5	-8	—	5	-2.5	1.5	7	0	2	-5	5	-1	4	..
	1961-62 to 1971-72 (average)	%	3	8	—	1.5	..	2	4	5	-0.5	0	2.5	-3.5	-2.8	..

1 National source.
2 Does not include total net migration between Finland and the other Nordic countries.
3 Total resident population.
4 From 1972, including Okinawa prefecture.
5 Private and socialised sector.
6 According to the definition used in OECD Labour Force Statistics: mining, manufacturing, construction and utilities (electricity, gas and water).
7 GDP in purchasers' values.
8 At current prices and exchange rates.
9 Fiscal year-Beginning July 1st.
9a Fiscal year-Beginning April 1st.
10 1971.
11 GDP at factor cost.
12 1970.
13 1972.
14 At constant (1970) prices.
15 1969.
16 1968.
17 Dwellings started.
18 Excluding transfer costs of land and existing assets.
19 Excluding ships operating overseas.
20 1965-1969.
21 1967-1971.
22 Government and government enterprise expenditure on machinery and equipment is included in government current expenditure.
23 " Other construction " included under " machinery and equipment ". Work in progress on heavy equipment and ships for the domestic market are included in fixed asset formation.
24 " Other construction " included in " residential construction ".
25 Including transfer costs of land.
26 General government.
27 Industry.
28 Manufacturing.
29 Males.
30 Monthly, wage earners.
31 Mining and manufacturing, males.
32 Hourly rates in manufacturing.
33 Hourly wages rates, unskilled workers.
34 Hourly rates in manufacturing, excluding family allowances.
35 Monthly earnings in manufacturing. Cash payments including bonuses, regular workers.
36 Hourly rates in industry, males.
37 Monthly.
38 Manufacturing, including salaried employees.
39 Mining and manufacturing.
40 Hourly rates.
41 Hourly rates in manufacturing, males.
42 Manufacturing, gross earnings per production worker.
43 Goods and services, excluding factor income.
44 Including reserve position in the IMF and special drawing rights.
45 Including Luxembourg.
46 Dec. 1973 - Dec. 1974.
47 Jan. 1974 - Jan. 1975.
48 According to the DAC definition. Including flows to multilateral agencies and grants by voluntary agencies.
49 Not Development Assistance Committee member.
50 Considered as a developing country for purposes of DAC reporting.
51 Volume, percentage change. Figures are subject to many limiting factors. For an explanation see OECD Economic Outlook, simple definition, December 1970, pp. 65 and 69.
52 The growth which would have occurred in a country's exports if it had exactly maintained its share in total OECD exports to each of 19 broad geographical zones.
53 The difference between the growth rates of markets and exports.

Note Figures within brackets are estimates by the OECD Secretariat.

Sources: Common to all subjects and countries, except Yugoslavia (for special national sources see above): OECD: Labour Force Statistics, Main Economic Indicators, National Accounts, Balance of Payments, Observer, DAC and Statistics of Foreign Trade (Series A); Office Statistique des Communautés Européennes, Statistiques de base de la Communauté; IMF, International Financial Statistics; UN, Statistical Yearbook.

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