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THE YUGOSLAV ECONOMY:
RECENT DEVELOPMENTS, PROBLEMS AND PROSPECTS

Note by the Chairman of the Economic Committee

The attached report is based on the Economic Committee's study of economic trends in Yugoslavia (AC/127-D/510).

2. It also takes account of suggestions made by senior officials from several member countries at the Committee's special meeting on this question on 10th April, 1975.

3. The Council is invited to take note of the report.

(Signed) J. BILLY

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Report by the Economic Committee

(a) Recent trends

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

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

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

4. In order to contain the price rises, the government is aiming to curb the growth of consumption in 1975; for this purpose it seems to be counting essentially on the social agreements

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

(b) External trade relations

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

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

7. Yugoslavia's foreign trade targets for 1975, viz an increase in exports by 10% in real terms and a 4% limit on the rise in the volume of imports, are not very realistic. In spite of steps to encourage exports, the latter may well feel the effects of the reversal of the economic situation which is becoming evident in most of the OECD countries, tougher international competition and the domestic inflation which makes

(1) Including China and Cuba

Yugoslav goods less competitive. To improve their competitiveness and although they are not thinking of taking such a measure immediately, the Yugoslavs could decide to devalue the dinar, a step which might also have a restraining influence on decisions to import. However the government has little room for manoeuvre where imports are concerned if it wishes to pursue the large-scale investment programme in the basic sectors and agriculture, one of the aims of which is to bring about a long-term reduction of purchases from abroad. Yugoslav economists are therefore faced with a dilemma because there is a certain contradiction between their growth targets and their desire to continue the process of trade liberalisation on the one hand, and the need to reduce the trade deficit on the other.

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

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

(c) Structural factors

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

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

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

13. Although generally speaking the efforts made to help them over the last few years have brought about an improvement in the economic position of the less-developed republics and provinces, the regional inequalities are still pronounced. The per capita income of the republic of Slovenia was six times higher than that of the province Kosovo in 1973. Only gradually will it be possible to remove these disparities for which there are several reasons, the main one being that the mountain ranges have created a barrier between the north of the country, which is traditionally influenced by western economic growth, and the south, where virtually nothing was done to promote development until 1945. However, the priority now assigned to accelerated expansion of the energy, mining and metallurgical sectors should do something to reduce the inequalities, inasmuch as the less developed regions are, to a large extent, industrially geared to this type of sector.

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

(d) Defence expenditure

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

(e) Outlook and concluding remarks

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

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

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

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

20. The Yugoslav economy would now seem to have entered a capital phase in its development which could take it beyond its present status of a developing economy. Among the positive factors which could help to bring this about are a high level of natural resources in relation to the country's needs, a regularly expanding industry, well-developed services (particularly tourism and transport) and a very large labour force. At the same time, the measures introduced, and still in force, to adjust industrial development, increase agricultural yields, reduce the regional differences in living standards and decentralise economic decision-taking and administration will not begin to bear fruit for some time to come and, in the meantime, Yugoslavia will require a lot of foreign aid. It is with this in mind, that the government in its economic relations is bent on making the most of every opportunity that comes its way, not only in the West, but in other parts of the world too.

TABLE I
AREA AND POPULATION

Yugoslavia (total)	AREA		1974 POPULATION(1)	
	sq.km	%	Thousands of inhabitants	%
	255,804	100.0	21,155	100.0
<u>Federal units</u>				
Bosnia and Herzegovina	51,129	20.0	3,925	18.5
Montenegro	13,812	5.4	552	2.6
Croatia	56,533	22.1	4,490	21.2
Macedonia	25,713	10.1	1,730	8.2
Slovenia	20,251	7.9	1,766	8.4
Serbia	88,361	34.5	8,692	41.1

Source: Statistical Pocket Book of Yugoslavia 1974 and Indeks
(1) Mid-year estimates

TABLE II: PER CAPITA INCOME
(dinars at current prices)

	Yugoslavia (Federation)	Bosnia	Montenegro	Croatia	Macedonia	Slovenia	Serbia	Kosovo
1966	4,670 (100)	3,145 (67)	3,014 (64)	5,566 (119)	3,125 (67)	8,084 (173)	5,012 (107)	1,637 (35)
1973 (2)	13,146 (100)	8,553 (65)	7,972 (61)	16,228 (123)	9,251 (70)	25,537 (195)	13,679 (104)	3,936 (30)

Source: Statistical Yearbook of Yugoslavia

(1) Excluding Kosovo

(2) Provisional figures

TABLE III: GROWTH OF PRODUCTION
(percentage annual growth rate)

	1970	1971	1972	1973	1974
Social product (constant prices)	6	9	4	5	7
Industrial output (volume)	9	10	8	6	11

Sources: For 1970 to 1973 - Statistical Yearbook of Yugoslavia (1974)
For 1974 - OECD and Indeks

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TABLE IV: ORIGIN OF SOCIAL PRODUCT
(CURRENT PRICES) IN 1973

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

Source: Indeks

TABLE V: TRENDS OF THE MAIN PRICE INDICES
(percentage annual growth rate)

	1970 (1)	1971 (1)	1972 (1)	1973 (1)	1974 (2)
Producer's price: agricultural produce	15	26	24	25	14(3)
Manufacturer's price: industrial goods	9	16	11	13	29
Cost of living	11	15	16	20	21
Unit value of exports	9	5	6	19	32
Unit value of imports	8	4	5	20	46

(1) Source: OECD, Economic Surveys, Yugoslavia, 1974.

(2) Source: Indeks

(3) Source: January - November 1974/January - November 1973

TABLE VI: GEOGRAPHICAL PATTERN OF YUGOSLAV TRADE

	EXPORTS				IMPORTS			
	1973		1974		1973		1974	
	Value (1)	%	Value (1)	%	Value (1)	%	Value (1)	%
- OECD including: USA EEC	1,590	55.7	(1,760)	(46.2)	2,825	62.6	(4,565)	(60.5)
	232	8.1	316	8.3	187	4.1	354	4.7
	1,022	35.8	1,039	27.3	1,908	42.3	3,019	40.0
- Eastern Europe(2) including: Soviet Union	915	32.1	1,451	38.1	1,090	24.1	1,693	22.4
	409	14.3	672	17.7	407	9.0	752	10.0
- Non-Communist developing countries	288	10.1	(443)	(11.6)	568	12.6	(1,210)	(16.0)
- Other countries	60	2.1	(151)	(4.1)	30	0.7	(74)	(1.1)
- Total	2,853	100.0	3,805	100.0	4,513	100.0	7,542	100.0

() = Estimates

(1) Millions of dollars

(2) Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Rumania,
Soviet Union

Sources: For 1973: Direction of Trade (IMF)

For 1974: Indeks and data contained in the study on the
Yugoslav economy in 1974 sent in by the Canadian
Delegation

The 1974 figures do not come from the same sources as the
1973 figures and are not, therefore, strictly comparable,
statistically speaking. However, they give a fairly
accurate indication of the geographical pattern of
Yugoslavia's trade.