

The Financial Development of Yugoslavia

Yugoslavia during the post-war period has a particular interest for the comparative study of financial structure and development because it is the only country combining from the 1950's on a substantial degree of central planning and the ownership of most of the means of production outside of agriculture by the state or by other communal organizations with a true financial system, in contradistinction to the monobanks of the Eastern European countries which are essentially accounting and control organizations. Yugoslavia thus provides a unique opportunity of observing the adaptation of a financial system to conditions which in many respects are quite different from those in the West and in much of the Third World. We shall return to this problem at the end of the article after a sketch of the changes in economic organization since 1945; a summary of the features of the infrastructure of the Yugoslav economy which are essential for understanding the country's financial superstructure and its development; a review of the trends of money, prices and interest rates during the past quarter century; a description of the main types of financial institutions and instruments and their development; a brief discussion of the methods of financing the main sectors; and an attempt at constructing a rough balance sheet of the Yugoslav economy for 1952, 1962 and 1972 and at calculating the country's financial interrelations ratio and its determinants. The discussion in general extends through 1971, mainly because the recent revision of the flow of funds accounts of the National Bank does not permit the extension of financial data comparable to those for the period 1958 to 1971 beyond the latter year. A brief summary of developments during 1972 and 1973 is, however, provided in the penultimate section of this article.

I. Changes in Economic Organization¹

The end of World War II and the creation of the S.D.F.J. were accompanied by a radical change in economic organization, the replacement of an economic system based on private property and more or less free markets for commodities, labour, tangible assets and financial instruments, by a centrally planned economy in which practically all physical assets outside of agriculture were owned by the state, i.e. the Federation, its six constituent republics and lower territorial units; and in which financial assets were limited to currency and bank deposits. What makes the Yugoslav experience unique, in finance as well as in other aspects of the economy, is not this radical change, but the attempt to shift from a Soviet-type centrally planned economy to a system that would combine public ownership of most means of production outside of agriculture with a limited amount of

¹ The literature on the economic system of Yugoslavia and its development is "immense", as Professor Vanek emphasizes, and as is supported by a count of books and articles of his own extensive bibliography. It may suffice here to list, in alphabetical order, the main publications, in English, excluding those dealing specifically with finance, that have been used in this as well as in the two following sections: ADIZES, I.: *Industrial Democracy Yugoslav Style*, New York, Free Press, 1971; BICANIC, R.: *Economic Policy in Socialist Yugoslavia*, London, Cambridge University Press, 1973; BOMBELLES, J. J.: *Economic Development of Communist Yugoslavia*, Stanford, Hoover Institution, 1968; FISHER, J. C. ed.: *Yugoslavia - A Multinational State*, San Francisco, Chandler, 1966; FURUBOTN, E. and PEJOVICH, S.: "Property rights and the behaviour of the firm in a socialist state: the example of Yugoslavia", in *Zeitschrift für Nationalökonomie*, 30 (1970); HORVAT, B.: *Business Cycles in Yugoslavia*, White Plains, International Arts and Science Press, 1969; HORVAT, B.: *An Essay on Yugoslav Society*, White Plains, International Arts and Science Press, 1969; MACESICH, G.: *Yugoslavia: The Theory and Practice of Development Planning*, Charlottesville, U. of Virginia Press, 1964; MILENKOVITCH, D. D.: *Plan and Market in Yugoslav Economic Thought*, New Haven, Yale U. Press., 1971; MONTIAS, J. M.: "Economic Reform and Retreat in Yugoslavia", in *Foreign Affairs*, 1958-59; MORAVEC, J. ed.: *25 Years of Yugoslav Economy*, Belgrade, Interpress, 1971; NEUBERGER, E. and JAMES, E.: "The Yugoslav Self-managed Enterprise: A Systematic Approach", in M. Bornstein ed., *Plan and Market: Economic Reform in Eastern Europe*, 1973; PEJOVIC, S.: *The Market-planned Economy of Yugoslavia*, Minneapolis, U. of Minnesota Press, 1966; STANOVNIK, J.: "Planning through the Market", in *Foreign Affairs*, 1961-62; VANEK, J.: *The Participatory Economy*, Ithaca, Cornell U. Press., 1971; VUCINICH, W. S. ed.: *Contemporary Yugoslavia*, Berkeley, Stanford University Press, 1969; WACHTEL, H. W.: *Workers' Management and Workers' Wages in Yugoslavia*, Ithaca, Cornell University Press, 1973; WARD, B. N.: *The Socialist Economy*, New York, Random House, 1967; WATERSTON, A.: *Planning in Yugoslavia*, Washington, Int. Bank for Reconstruction and Development, 1962.

indicative rather than obligatory planning and with the free operation of markets for commodities, services and labour and financial instruments. This attempt has now lasted for well over two decades. It has involved several shifts in economic and financial organization and policy, mostly in the direction of a less rigidly controlled economy, and it is still far from having achieved its goal of "associationist socialism" which is claimed to be not an eclectic combination of private and government ownership, but a monistic system based on the principle of "social ownership" embodied in worker-management of economic enterprises,² possibly the most important single institutional characteristic of the Yugoslav economy.

Almost all authors who have made an intensive study of the post-war development of the Yugoslav economy, and in particular of its financial superstructure, have stressed its specific character, which makes it impossible to analyse it in terms of either a centrally planned economy of the Soviet type or of a market economy of neoclassical theory. This specific character centers on the as yet unresolved problem of integrating the operations of these over 6000 larger nominally worker-managed enterprises with the central determination of some important economic and financial parameters, such as the total volume and the main components of investment; many aspects of foreign trade; basic commodity prices; and interest rates.

In this situation, the laws and other published regulations and instructions relating to the operation of the economy, and in particular of financial institutions, are often insufficient to provide information on and permit understanding of the actual state of affairs. As very little has been published on the functioning of the Yugoslav economy, in contrast to the vast literature on its institutional framework, such information can generally be obtained and often be understood only by extended participation at a fairly high level in the hierarchy. Whoever lacks this qualification must be very cautious in his statements about the actual modus operandi of the economic and financial structure of Yugoslavia, remembering the recent complaint of a leading Yugoslav economist that "we do not have a clear idea how the Yugoslav economy functions".³

² HORVAT, *Essay*, 92.

³ A. BAJT, *L'economia jugoslava alla fine del 1970*, 1971, 20.

II. The Infrastructure

1. - The development of Yugoslavia in the post-war period has not had to face an excessive growth of population. In the two decades ending in 1972 total population increased from 16.8 million to 20.7 million i.e. at a rate of hardly more than one per cent per year, the same rate as that prevailing between 1921 and 1948. Even this slow increase apparently exceeded the country's absorption, as evidenced by the substantial emigration, particularly to West Germany, which became important in the 1960's with the result that in 1971 about seven per cent of the labor force worked abroad. Both birth and death rates were relatively low and showed a slowly decreasing trend. Urbanization increased slowly, the five largest cities accounting for six per cent of the population in 1948 and for ten per cent in 1971.

The average quality of the labour force rose considerably, but the extent of this change is difficult to measure. One indication is the sharp rise of the ratio of non-agricultural employment from not much over one-fourth in 1948 to nearly three-fifths in the 1960's.

2. - The aggregate real national product of Yugoslavia has risen rapidly and with only few interruptions since the early 1950's, after an inauspicious start in the period of centralized planning, during which it advanced only by 12 per cent in the six years ending 1952, and the average annual rate of growth per head was slightly below one per cent.⁴ In contrast real product rose between 1952 and 1972 by about 350 per cent, or at an annual average rate of about nine and one-half per cent in the aggregate and one of close to nine per cent per head.⁵ In 1972 average per head product with about D. 7,000, in current prices, was equivalent to slightly more than \$400 at the exchange rate of D. 17 per dollar. Since the purchasing power of the dinar was higher than its official foreign exchange value — according to one estimate by about one-fourth⁶ — the

⁴ Yugoslavia 1945-1964.

⁵ This rate of well over eight per cent per year was far above that of earlier periods. Thus I. VINSKI (*Uvod u analizu nacionalnog dohotka i bogatstva*, 1967, 397) has estimated the average rate of increase of real product per worker at only slightly above one per cent for the period 1910 to 1953 (1.0 per cent for 1910-1931; 1.3 per cent for 1931-1953).

⁶ This ratio is based on a comparison of the exchange value of the dinar and the French franc (S. STAJIC, "An international comparison of Yugoslav national product", in *Ekonomška Analiza*, V, 1971, 205 ff.) and assumes in the absence of relevant estimates for recent years that the purchasing power parity of the franc compared to that of the dollar was equal to the franc-dollar exchange rate.

adjusted value of product per head was slightly above \$500, which puts Yugoslavia near the upper boundary of the range for countries usually classified as less developed.

Annual data for real product show considerable fluctuations around the average, fluctuations that are in many aspects similar to the business cycles of less developed capitalist countries, in particular in the leading role played by fluctuations in investment and by the balance-of-payments situation.⁷

The rapid rise in real national product was accompanied, and indeed was in part caused, by substantial shifts in the relative contribution of the different sectors. The outstanding changes are, first the decline, in terms of constant (1966) prices, in the share of agriculture from two-fifths in 1953 to one-fifth in 1971; secondly, the increase in the share of industry from a little over one-fifth to nearly two-fifths; and, thirdly, the rather unexpected rise in the share of trade from one-seventh to one-fifth.

Since the financing requirements of the different sectors vary, both in total amount in relation to their contribution to national product and in the type of credit required, the shifts in the sectoral distribution of national product influence the size and nature of the superstructure of financial instruments and of financial institutions.

3. - Changes in the shares of the public and private sectors of the economy have had a substantial influence on the amount and share of external financing as well as on the types of financial instruments used. Although socialization of the means of production was far advanced at the end of the period of centralized compulsory planning by the Federal government in 1952, the share of the public sector in national product increased from three-fifths in 1953 to four-fifths in 1970. This was due primarily to an expansion of the public sector's share in agriculture from about one-seventh in 1952 to over one-fifth in 1970, while the public sector's predominance in the non-agricultural sector increased only by one percentage point, leaving in 1970 only six per cent to the private sector.

4. - Because of the strong upward trend in the price level, national product in current prices advanced at a very rapid rate. Between 1947 and 1957 it rose from D. 14 to D. 220 billion, an average annual

⁷ On the question of the existence, character and dating of economic fluctuations in Yugoslavia see B. HORVAT, *Business Cycles in Yugoslavia*, 1969.

rate of increase of about 32 per cent. A large part of the rise reflects the rapid inflation during the first decade of the S.F.R.J. The rate of expansion, however, was rapid even after the mid 1950's, averaging about 12 per cent for the period from 1957 to 1972. The rate of increase was the same in the two eight-year periods 1957 to 1964 and 1965 to 1972, and was also close to 12 per cent for the three trough-to-trough cycles 1958 to 1960, 1961 to 1964, and 1965 to 1971. Year-to-year fluctuations around this average, however, were considerable. Thus the current value of gross national product increased by more than 25 per cent, a rapid inflation by any standard, in five out of the past 16 years, viz. in 1959 (26 per cent), 1964 (35 per cent), 1965 (31 per cent), 1966 (28 per cent) and 1971 (30 per cent).

5. - The S.F.R.J. is a country with marked differences in basic physical and economic characteristics, many of which are also visible in the financial structure of the different parts of the country — the six federated republics and the two autonomous regions. Most characteristics show a definite gradient from the three northern regions (Slovenia, Croatia and Vojvodina), accounting for two-fifths of the population of the S.F.R.J., which were parts of the Austro-Hungarian monarchy; to Serbia proper, which contains most of the territory of the pre-1918 Kingdom of Serbia; and to the southern part of the country consisting of Bosnia (a part of the Austro-Hungarian monarchy from 1878 to 1918), Montenegro, Kosovo and Macedonia. The northern and most westernized part of the country has a per head product of about one-fifth above the country average; Serbia's is equal to that of the S.F.R.J.; and that of the southern regions is more than two-fifths below the country average. The main reason for these disparities is the much higher share of agriculture in the less developed regions. National income per head of non-agricultural workers was only three per cent above the national average in the more developed and 11 per cent below it in the less developed regions.⁸

Much of the spread thus reflects the very different history and pattern of economic growth of the regions which a century ago were parts of three countries which differed considerably in size, in the

⁸ P. STICHERL, "Regional comparison of government expenditures in Yugoslavia", paper prepared for 13th meeting of International Association for Research in Income and Wealth, August 1973.

level of economic development and in their economic policies. It has been one of the main pre-occupations of the government of the S.F.R.J. to reduce these regional differences.

6. - Throughout its existence the S.F.R.J. has used a relatively high proportion of its income to build up its capital stock. This could be expected in the early years when centralized planning by the Federal government made the allocation of over one-third of a relatively low level of income possible irrespective of the preferences of the population. High rates of capital formation, however, continued not only under the partly decentralized system of indicative planning and of worker-management of enterprises introduced in the early 1950's, but also after the reforms of 1965 which went farther in decentralization and in giving autonomy to worker-managed enterprises. The continued high level of capital formation may be explained in part by the fact that the central government throughout the period remained responsible for, or at least concerned with, many of the large infrastructural investment projects;⁹ and in part by the attempt of the central authorities to impress upon the republican and municipal governments as well as upon the worker-managed enterprises the importance of a high rate of investment. The provision that enterprises had to keep their capital stock intact and were not permitted to use earned depreciation allowance for current outlays, including wages, may have led to high investment ratios even in cases where the managers and workers were not convinced by the government's arguments.

For the period as a whole gross fixed capital expenditure averaged fully one-fifth of gross national product. The ratio was considerably above this level with 31 per cent, from 1960 through 1964. One of the important effects of the economic reforms of 1965 was a substantial reduction in the investment ratio to an average of 21 per cent in 1966-72 probably because it had become evident that the ratio's level

⁹ An interesting experiment to substitute the market's judgment for administrative decision in the allocation of investment funds is represented by the "investment auctions" in which funds were awarded to the highest bidder, meeting certain specified conditions. This system, however, operated only during the years 1954 to 1958 and was used in only a few dozen cases. The system, it has been concluded, "... does not appear to have been a great success; or to be more accurate it was not given a full chance to prove its worth" because the central authorities did not have "full confidence in the judgment and integrity of managers of enterprises...". (Cf. E. NEUBERGER, "The Yugoslav Investment Auctions", in *Quarterly Journal of Economics* 73, 1959, 114).

TABLE I

CAPITAL FORMATION, 1953-1972

	Total		Fixed assets		Inventories ²
	Gross (1)	Net (2)	Gross (3)	Net ¹ (4)	
<i>I. Amounts, bill. dinar</i>					
1953-1957	31	25	23	17	8
1958-1962	72	62	48	38	24
1963-1967	168	136	108	76	60
1968-1972 ³	243	175	183	105	60
1953-1972 ³	514	398	362	244	152
<i>II. Relation to Gross National Product, per cent</i>					
1953-1957	36	29	27	20	9
1958-1962	44	38	29	23	15
1963-1967	38	31	24	17	14
1968-1972	25	19	19	13	6
1953-1972	31	24	22	15	9

¹ Rough estimates for 1953-60 and 1971/72.

² Rough estimate eliminating inventory profits and losses.

³ Gross fixed investment in 1973 was 53 bill. dinar, or about 16 per cent of gross national product.

Source: *Statistički Godisnjak Jugoslavie* (henceforth abbreviated *S.G.*) various issues; for 1972 *Indeks*, 1973, 4.

of the early 1960's exceeded the optimum, both from the point of view of the population's demand for an improvement of their standard of living and from that of the efficient handling of investment projects.

Since depreciation allowances necessarily came to account for an increasing proportion of gross investment, as the period of high capital expenditure lengthened, the proportion of net investment in reproducible fixed assets showed a declining trend over this period, falling from about one-fifth of gross national product in the mid-1950's to less than one-sixth in the late 1960's. This development is important from a financial point of view because it reduced the need

of financing new capital expenditures either out of the enterprises' undistributed profits or from external sources, i.e. primarily by borrowing from the banking system.

7. - A second characteristic of the investment process in Yugoslavia is the high and rising share of inventories. For the period 1953-1970 as a whole, investment in inventories was equal to as much as one-fourth of gross investment in reproducible fixed assets and to over one-third of net fixed investment, the share rising, in the case of gross fixed capital formation, from about one-fifth in 1953-64 to two-fifths in 1965-70.¹⁰ Inventories in 1952 represented slightly less than one-fifth of the net (depreciated) value of fixed reproducible assets. By 1962 the ratio had risen sharply to over two-fifths, and by 1970 it stood at over one-half. Relating inventories to gross national product it is found that inventories were equal to about ten months' national product at the beginning and at the end of this period. Such high ratios of inventory investment to total capital formation and of inventories to the stock of reproducible tangible assets are characteristic rather of the East European centrally planned economies than of Western market economies. The rapid rise of inventories during the 1950's may be explained in part by the abnormally low level at the time the S.F.R.J. was formed. Continuation of inventory accumulation at a more rapid pace than either national product or the stock of reproducible assets expanded points to the limited progress made in the return of the country towards an effective market economy.

8. - The high investment ratio led to a rapid expansion in the capital stock. The stock of reproducible fixed assets in constant (1962) prices appears to have quadrupled between 1946 and 1970, equivalent to an average annual rate of growth of nearly six per cent,

¹⁰ The calculation is based on figures for capital formation and inventory accumulation in constant (1966) prices. While such figures are available for fixed capital formation in the official statistics (*Statistički Godisnjak*), they had to be roughly estimated for inventories by reducing the available figures of annual changes in inventories to 1966 prices by means of the gross national product deflator. This method is far from satisfactory, but had to be used in the absence of official estimates of inventory accumulation adjusted for inventory profits or losses resulting from changes in prices. The higher ratios in current prices derived from the unadjusted data overstate the share of inventories because of the inclusion of inventory appreciation which was substantial in a period of rapidly increasing prices.

rising from close to five per cent in the 1950's to seven per cent in the 1960's. The rise was, of course, more rapid in current prices, viz. from less than 60 bill. dinar in 1956 to about 650 bill. in 1972, an average annual rate of increase of 13 per cent.

Changes in the structure of the capital stock were substantial. The share of plant and equipment increased between 1952 and 1969 from 41 per cent to 48 per cent of the total, while that of structures declined correspondingly,¹¹ a development one would expect in a country in the process of rapid industrialization. The same process was at work in raising the share of industry from under 50 per cent to 55 per cent at the expense of transport and communications, the share of which declined sharply from 38 per cent to 22 per cent. The relatively sharp increases in the share of agriculture (from six per cent to 11 per cent) and of trade and services (from four per cent to eight per cent) are less in line with expectations. The high level of investment in inventories, already mentioned, led to an even sharper rate of increase in the stock of raw materials, semi-finished products and finished commodities. As a result the ratio of inventories to fixed assets increased sharply from less than one-sixth in 1956 to over one-half in 1972.

These trends in the size and in the structure of the capital stock are of substantial importance for the financial superstructure because inventories are financed to a higher degree by short-term credits than fixed reproducible assets, and among them expenditures on plant and equipment are likely to be financed relatively more often by short-term credit than construction expenditures are.

Because of the different methods of financing these two types of investment the distribution of the capital stock between the public (in Yugoslavia called collective people's ownership) and the private sector is of importance. In 1953 — apparently the only date for which an explicit estimate is available — the total capital stock was about equally divided between these two groups. The division, however, differed greatly among narrower sectors. The share of the private sector was close to zero in manufacturing, mining, construction, transport, commerce, education, health and, naturally, government. It amounted to about one-sixth in forestry and to nearly one-half in handicrafts and cottage industries. The private sector, on

¹¹ J. ZIVADINOVIC, *Yugoslav Survey* XI, 2 (1972).

the other hand, dominated in the dwelling sector with about three-fourths of the total, and in agriculture with about seven-eighths of the capital stock including land.

9. - For the period as a whole nearly one-third of total gross fixed capital formation was financed by investors' own funds (including depreciation allowances), but the share fluctuated considerably and exhibited a generally downward trend until the late 1960's. Thus it exceeded 40 per cent in 1955-1957, but fell below 30 per cent from 1957 on, reflecting the effects of the financial reforms of the mid-1960's which increased the importance of external financing. These reforms are also reflected in a sharp increase of the share of private resources from well under one-tenth up to 1964 to an average of nearly one-fifth since 1966; and in the practical disappearance of financing from the budget, which had accounted for nearly five per cent of the total in the 1950's. The replacement of governmental investment and development funds, which until 1963 had financed about one-half of total gross fixed capital formation, by banks reflects the radical reallocation of functions between these two types of financial institutions in the reforms of the mid-1960's.

10. - Since net capital imports amounted to only about two per cent of national product total gross and net domestic saving must have practically been on the same level and must have shown the same movements as gross and net investment, though the statistics of these two magnitudes may show differences, occasionally even substantial ones, because of imperfections in the data. The main interest, therefore, attaches to the distribution of saving among the various domestic sectors.

For the period 1962-1972 one-fourth of national saving was under the direct control of the government (including investment loan funds financed from the budget); one-half under that of the worker-management of socialized enterprises; while one-fourth was the result of the decisions of households and of small private enterprises. (On a net basis the share of the government and of households would be slightly higher and that of socialized enterprises slightly lower).

From the point of view of financial development the differences between the two halves of the decade are of possibly greater interest

than the decadal averages. From 1962 through 1965 households contributed less than one-tenth of national gross saving; socialized enterprises somewhat less than one-half; and the government (including investment loan funds) about two-fifths. In the 1966-1972 period, i.e. after the reforms of 1965, the share of household averaged about 30 per cent and in 1971 and 1972 it reached 35 per cent. This sharp rise, which in absolute terms increased household saving from D. 3 billion in 1965 to D. 30 billion in 1972, was offset mainly by a reduction in the share of investment loan funds from nearly 30 per cent in 1962-1965 to not much over one-tenth in 1966-1972. This shift reflects the objective of the 1965 reforms of decentralizing the financial process and of increasing the importance of financial institutions not directly controlled by the government.

11. - Notwithstanding substantial grants and credits received from non-communist countries, principally the United States, Yugoslavia's balance of payments position was very tight throughout most of the period, and this tightness constituted one of the most important limitations to the expansion of the Yugoslav economy, in particular to the level of investment in equipment.

Yugoslavia had throughout the period a large excess of commodity imports over exports, about four per cent of national product, if five-year aggregates are used, from the late 1940's to the mid 1960's; but of nearly eight per cent in the 1967-1973 period. Most of the trade deficit was offset by intergovernmental transfers; and, particularly from the 1960's on, by workers' remittances and tourist expenditures. As a result the deficit in the current account balance was held for the average of the period as a whole below one per cent of national product, though it reached 1.2 per cent in 1967-1971. This deficit was made up chiefly by imports of short- and long-term capital as monetary movements were fairly small, disregarding year-to-year fluctuations. Net capital imports thus undoubtedly financed only a small proportion of total capital formation, probably less than three per cent of total gross investment, although they were essential at certain periods when the balance of payments position was particularly tight, as well as for some large investment projects. It is quite possible that foreign technical assistance and the participation of foreign enterprises in joint ventures were a more important factor in the rapid industrialization of Yugoslavia.

III. Money, Prices and Interest Rates

1. - At the end of World War II there circulated in the territory of the S.F.R.J. seven different currencies, which had been issued by the two puppet government set up by the Germans and by the five occupying powers. These notes and coins were exchanged, at rates differing between currencies, for 5.8 billion dinars, the notes having been printed in advance by the U.S.S.R. These temporary notes were in turn exchanged in 1947, at par, against notes issued by the National Bank (Narodna Banka). At the same time the exchange rate was fixed at 50 (old) dinars for one U.S.A. dollar.

The note issue increased rapidly during the period of centralized planning when these notes constituted, as in the U.S.S.R., the only financial asset that could be held by the private sector, while all transactions among enterprises and government organizations had to be settled by transfers in their accounts maintained with the Social Accounting Office. At the end of 1952 notes in circulation reached 50 billion old dinars (i.e. 500 million of the new dinar introduced in 1966), or about five per cent of the annual rate of gross national product. The money issue ratio for the entire period from 1945 through 1952 is roughly estimated to have amounted to about two per cent of national product.

From the early 1950's on, the role of money changed as the centrally planned economy, in which money had been little more than a unit of account and the issue of money was closely tied to the cash plans set up centrally for each socialized enterprise, so that the supply of money preceded and dominated the demand for it, was superseded by partial decentralization of planning and decision making and a limited return to a market economy.¹² Money now became one of several financial assets that enterprises and households could hold. The peculiar character of the Yugoslav economy is reflected in the creation of several types of deposits, at times up to half a dozen of them coexisting that differed in "moneyness", some of them being regularly used as means of payment, while others were restricted in various ways, particularly in the type of transactions for which they could be used.

¹² On the role of money in the Yugoslav economy cf. D. D. DIMITRIJEVIC and G. MACESICH, *Money and Finance in Contemporary Yugoslavia*, New York, Praeger, 1973 (henceforth cited as *D-M*).

The official definitions introduced in 1966 and in use until 1972, distinguished three types of money, M.1 consisting of currency in circulation and of giro and some other types of sight deposits; M.2 adding quasi-money, i.e. mainly sight saving deposits; and M.3 further adding restricted deposits and time saving deposits. Table II shows the ratio of money issues and money stock to national product for the three periods distinguished since the end of the centrally planned period, i.e. the years 1953-1958, 1959-1964 and 1965-1971.

TABLE II
MONEY ISSUE AND STOCK RATIOS, 1953-1971

	Currency ¹	Deposits ²	M-1 (1) + (2)	Quasi- money ³	M-2 (3) + (4)	M-3 (Liquid resources) ⁴
	(1)	(2)	(3)	(4)	(5)	(6)
<i>I. Money issues; per cent of gross national product</i>						
1953-58	0.96	2.25	3.22	1.83	5.05	9.33
1959-64	1.37	5.35	6.72	1.72	8.34	10.20
1965-71	1.55	0.92	2.47	2.76	5.23	6.26
<i>II. Money stock; per cent of gross national product</i>						
1952	5.4	29.2	34.6	3.2	37.8	47.6
1958	7.1	24.8	31.9	10.4	42.3	66.2
1964	7.5	28.4	35.9	9.8	45.7	60.7
1971	9.0	12.5	21.5	14.9	36.4	46.0
<i>III. Distribution of money issues; per cent</i>						
1953-58	19	44	63	37	100	185
1959-64	16	64	80	20	100	122
1965-71	30	18	48	52	100	120
<i>IV. Distribution of money stock; per cent</i>						
1952	14	78	92	8	100	126
1958	17	58	75	25	100	156
1964	16	62	78	22	100	133
1971	25	34	59	41	100	126

¹ Outside banks and post offices.

² Giro and similar deposits; bank checks; float.

³ Sight deposits in banks.

⁴ In addition to M₂, M₃ includes restricted deposits, time and savings deposits and bonds with maturity of less than one year.

Source of underlying figures: D. D. DIMITRIJEVIC and G. MACESICH, *Money and Finance in Contemporary Yugoslavia*, New York, Praeger, 1973. (Henceforth abbreviated D-M).

For the period as a whole, i.e. between the end of 1952 and of 1971, M.1 increased at an average annual rate of nearly 14 per cent (19 per cent for currency and nearly 12 per cent for sight deposits) and M.2 and M.3 at rates of close to 16 per cent. These rates were close to the rate of increase of national product in current prices and were about twice as high as the average rate of growth of real national product of eight per cent. This rapid expansion of the volume of money implied a sharp upward trend of prices, since it is difficult to visualize an offsetting reduction of the income velocity of circulation of money — equal in 1953 to about three and one-half months' national product for M.1 and for M.2 and to about five and one-half months' for M.3 — even allowing for the increasing monetization of the economy.¹³ The similarity between the rates of expansion of money supply and gross national product in current prices, on the other hand, points to a stability, at least for the period as a whole, of the ratio of the money stock to national product and of the money issue ratio, i.e. the quotient of the net increase (or decrease) in money stock to the period's national product.

The differences in the ratios of the alternatively defined supply of money to gross national product point to changes in the structure of total liquid resources. Currency in circulation, and particularly quasi-money, soared in importance while the share of the deposits included in M.1 declined sharply. These changes, particularly those among the different types of deposits, represent a combination, not easy to disentangle, of mere reclassifications and changes in nomenclature, and of shifts that represent genuine differences in the "moneyness", in the velocity of turnover and in the character of the holders, three aspects about which very little is known.

These movements are probably connected with shifts in the sectoral distribution of money and its components. Thus the share of households in M.1 increased from slightly over one-fifth in 1960 and 1964 to over one-third in 1968 and to more than two-fifths in 1971. In the case of the broader M.3 aggregate the rise was from

¹³ The monetization ratio has been estimated to have increased from 0.70 in 1953 to 0.90 in 1963 — the Western level. (D. DIMITRIJEVIC, *The Financial Structure in a Changing Economy: The Case of Yugoslavia*, mimeo, Dec. 1965, p. 5). The share of personal consumption represented by own production and receipts in kind fell from fully one fifth in 1960 to not much over one tenth in 1971 (UNITED NATIONS, *Yearbook of National Account Statistics*, 1972, II, 716).

one-sixth in 1960 to one-third a dozen years later. This increase in the share of households in money supply, particularly in currency, reflects the increasing importance of individuals and of their portfolio decisions within the financial structure of Yugoslavia as the process of decentralization and the role of free, or semi-free, markets, increased from the mid-1950's on.

The periods of half a dozen years each hide considerable year-to-year fluctuations, part of which reflect cyclical movements in the economy, while others, are the result of change in monetary policy or are due to exogenous events.

Looking at M.2, the concept which probably corresponds most closely to money as the main means of payment in the economy, it is found that compared to an average annual rate of 16 per cent there were only two early years (1953 and 1955) when the increase was close to zero. The stage of hyperinflation was also limited to two years: 1954 with 37 per cent and 1962 with 48 per cent. The tight money policy of the mid-1960's is clearly visible in the low rates of expansion of 1965 to 1967, which averaged 11 per cent, still far above the average rate of growth of real national product of four per cent for these three years.

2. - The effects of the rapid expansion of the volume of money, narrowly or broadly defined, which has been in most years well in excess of the increase in the real volume of output, have been reflected in the upward trend in prices.

The broadest indicator of movements in the level of prices, the gross national product deflator, has risen between 1956, when it can first be calculated, and 1972 by about 350 per cent, or at an average annual rate of nearly ten per cent. While the price level rose only by about four and one-half per cent a year between 1956 and 1963 it doubled in the following eight years, and advanced by another 50 per cent in 1971 and 1972. Some Yugoslav monetary experts feel that an average annual rise in the price level by five per cent is now built into the system, partly as a result of the tendency of demand to outrun supply in an economy which is still in the scarcity stage, and should not be regarded as the inflationary result of a monetary policy that has much more often been easy rather than tight.¹⁴ The actual annual rates of increase in the price level have, however, exceeded

¹⁴ D-M, 183.

this threshold in every one of the last dozen years with the exception of only 1967 and 1968; and has been in excess of ten per cent in two periods of three years each, viz. 1964-66 and 1971-73. Monetary policy — or the lack of it — must be held responsible for at least part of the advances in these years, except possibly for the 30 per cent jump in prices in 1965, which to a large extent reflected the introduction of a new price policy that was more realistic in the sense that the relationships among prices of commodities were brought nearer to those ruling on the world market. Even at the present time, however, a substantial proportion of all prices, including many crucial ones, are subject to administrative control, and the system still contains many distortions compared to the relationships prevailing in the free market economies of developed countries.

The Yugoslav price system has been characterized by an increasing disparity between the prices of industrial goods, for which increases in productivity or imports offset part of the upward drift of the price system, and agricultural prices which did not benefit from these two factors, or did so only to a much lesser extent. Between 1953 and 1972 purchasers' prices of agricultural commodities advanced by 750 per cent, or at an average rate of 13 per cent a year, compared to a rise by 125 per cent, or four and one-half per cent a year, for industrial purchasers' price. In other words, the purchasing power of agricultural over industrial products almost quadrupled in this period.

3. - Interest rates have, with few exceptions, remained under the control of the government, the National Bank, or other public bodies throughout the existence of the S.F.R.J. notwithstanding the general trend towards a partial market economy. As a result they have risen but little over the last 25 years; have been kept at artificially low levels; and have been unable to exercise their function of influencing the volume of saving and investment and of guiding the allocation of funds among alternative uses and among groups of users.

The ceiling rate for bank credits has varied between six per cent and ten per cent, and has remained unchanged for periods as long as at least four years in three instances (1948-1951; 1957-1960; 1961-1971). The other important debit interest rate, that charged from 1952 on by public bodies on the capital they supply to worker-managed enterprises, seems to have been kept at an unrealistically low level and within the narrow range of four to six per cent. The

discount rate of the National Bank has remained within the narrow margin of five and seven per cent, standing at six per cent since 1963, except for parts of 1967.

Credit interest rates have been equally rigid, but have shown a mild upward trend. Thus the rate on sight deposits in banks has risen between 1953 and 1971 from one to three per cent; that of sight saving deposits from five to six per cent; and that of two types of time deposits from four and five to six and seven and one-half per cent respectively. The differences between debit and credit rates are thus very small, possibly because the debit rates affect primarily enterprises while the credit rates apply mainly to household deposits.

There is no doubt that the level of interest rates was considerably below the rates that would have prevailed in the absence of rate fixing by the authorities. This should be evident from the fact that interest rates were, for the period as a whole and for most shorter intervals, below the rate of increase in the price level which averaged about five per cent for the 1950's and 11 per cent for the 1960's. In other words real interest rates were, apart from short periods, mainly in the 1950's, negative rather than positive.

IV. Sectoral Financial Surpluses and Deficits

For financial analysis it is the size and distribution of the sectoral financial surpluses and deficits, i.e. the difference between their saving and their capital expenditures, which is of primary interest, because they indicate the extent to which each sector absorbs funds from or supplies funds to other sectors. Table III, therefore shows the financial surplus or deficit of each of the main sectors for the periods 1958-1964 and 1965-1971 expressed as percentages of gross national product as well as of the absolute sum of sectoral surpluses and deficits.

Since the sum of sectoral financial surpluses and deficits is necessarily zero (provided that the rest of the world is treated as one of the sectors) it is the absolute sum of sectoral surpluses and deficits which measures their importance in relation to national product. On that basis sectoral financial surpluses and deficits averaged about 16 per cent for the 1958-1972 period as a whole, falling from 27 per cent in 1958-1964 to 17 per cent in 1965-1971 and to less than 12 per cent in 1972. These are high values in international comparison,

partly explained by the high degree of layering in the financial structure of Yugoslavia, due to the existence of the investment and loan funds financed from the government budget which make part of their funds available to other financial institutions.

TABLE III
SECTORAL FINANCIAL SURPLUSES AND DEFICITS, 1958-1972

	1958-1964	1965-1971	1972	1958-1964	1965-1971	1972
	Per cent of Gross National Product			Distribution		
	(1)	(2)	(3)	(4)	(5)	(6)
1. Economic organizations	-13.4	-7.7	-5.2	50	44	45
2. Households	0.7	3.1	4.7	3	18	41
3. Domestic private sectors.	-12.7	-4.6	-0.5	52	62	86
4. Public sectors (1) . . .	10.2	4.0	1.1	38	23	9
5. All domestic sectors . . .	-2.5	-0.6	0.6	90	85	95
6. Rest of the world . . .	1.5	1.6	0.6	6	9	5
7. Discrepancy	-1.0	1.0	-	4	6	-
8. Total (absolute values) .	26.8	17.4	11.6	100	100	100

¹ Federal and other governments; other organizations; investment funds and banks (financed from budget).

Source: National Bank of Yugoslavia, Annual Report (henceforth abbreviated NBAR), various issues.

The enterprise sector has, as is usual, by far the largest deficit averaging nearly nine per cent, while households have the largest surplus, though its value of not much over three per cent of national product for the period as a whole is low in international comparison.

The main differences between the two halves of the period were the sharp absolute and the moderate relative decline of the financial deficit of economic organizations and the sharp increase of the financial surplus of households reaching in 1972 nearly five per cent of national product; and even more the decline, in absolute and relative terms, of the financial surplus of the public sector. By 1972 the level and distribution of sectoral financial surplus and deficits approached the pattern found in Western countries.

V. Financial Institutions¹⁵

I. - As a result of, first, the formation of the S.F.R.J. in 1945 and, secondly, of the zig-zag movements, starting in the early 1950's, towards a market economy, financial institutions in Yugoslavia have during the last three decades undergone numerous changes in name, management, policies, ownership, organization, fields of activity and character of assets and liabilities. It is not possible to follow every turn and change within a brief study.¹⁶ Nor is it necessary, since part of the changes, after the abandonment of the centralized planning system in which banks functioned primarily as fund transfer, accounting and auditing organizations, affected appearances more than substance. What is important is the basic trend, sometimes difficult to detect under the overlay of organizational changes, towards a set up that is closer to the diversified and decentralized system of financial institutions found in market economies than to the mono-bank of the U.S.S.R. and of other centrally planned economies. This trend has led, after numerous false starts and reorganizations in the 1950's and early 1960's, to a situation where a central bank, similar in its operations to those in market economies, coexisted with a number of business banks that operated short- and long-term credit departments, and with a small number of government owned special banks. The business banks are owned by local authorities or by socialized enterprises, and in principle may operate throughout the S.F.R.J., although most of them actually limit their activities to a much smaller area. The shares of these banks are transferable among enterprises and government bodies, but no stockholder may have a vote exceeding ten per cent of the total.

Of the over 800 banks or quasi-banks, mostly very small institutions, which existed in 1944 in the territory of the S.F.R.J., 720 were

¹⁵ The main general sources of the discussion in this section are, next to the basic statistics published in the annual reports of the Narodna Banka and in the annual *Statistički Godišnjak*, the study by Dimitrijević and Macesich published in the fall of 1973, a draft copy of which was kindly made available earlier by the authors; and two articles, viz. E. FURUBORN and S. PEJOVIĆ, "The role of the banking system in Yugoslav economic planning, 1946-1961" in *Revue Internationale d'Histoire de la Banque*, 1971, and M. VUCKOVIĆ, "The Recent Development of the Money and Banking System of Yugoslavia", in *Journal of Political Economy*, LXXI (1963).

¹⁶ For a detailed discussion of these changes cf. *D-M*, Chapters 1 and 2, and the literature cited there.

liquidated, 95 confiscated, and presumably later liquidated or merged with new institutions; and four were nationalized, including the central bank. The still smaller credit unions, of which approximately 4,000 existed, were also liquidated.¹⁷

In view of the repeated organizational changes in which banks were renamed or reclassified, it seems preferable to concentrate attention on the total number of banks and offices and total assets, as the case may be.¹⁸ It is then found that the number of banks declined sharply from the 70-odd institutions in 1945 which had succeeded to the pre-war banks to one in 1952 — the National Bank, which absorbed all other banks. This centralization was soon reversed and numerous communal banks set up. They in turn were transformed in the mid-1960's into investment or commercial banks, or were absorbed by the latter. As a result the number of separate banking institutions which had, with only minor fluctuations, numbered somewhat over 200 from the mid-1950's to the mid-1960's, declined to about 100 in 1967, and in 1970 had been reduced to only slightly above 60. The number of bank offices reached a peak in 1967 with nearly 700, about five times the number operating in 1945. It then declined to below 500 in 1967, but by 1970 again exceeded 600.¹⁹ There thus has taken place during the last dozen years, and particularly after the reforms of 1965, a marked process of concentration, which has reduced the number of separate banks by more than two-thirds, while the average number of offices per bank rose from less than three in 1957 to nearly ten in 1970. Another result of this process is the formation of a few fairly large institutions whose net of offices and operations extends beyond the territory of the Republic in which their head office is domiciled. The tendency towards concentration has been accentuated by the formation of bank groups. In 1971 there were only 29 independent banks left, of which 20 had neither branches nor affiliates, while the remaining nine banks had 27 affiliates and a dozen branches, and their assets were equal to that of the 20 other independent banks.

¹⁷ M. VUCIĆ, in *Bankarstvo*, 1967, 62.

¹⁸ Another physical measure of the size of the banking sector is provided by the number of employees which was in the neighbourhood of 40,000 (VUCKOVIĆ, *Journal of Political Economy*, LXXI, 374), or about eight per cent of the total non-agricultural labor force, and on the average less than seven per bank office.

¹⁹ Cf. article by R. NADRIJANSKI, in *Jugoslavensko Bankarstvo*, March 1971 and later direct communication.

In comparison to developed countries, the banking net of Yugoslavia is still quite broad-meshed, with one office for every 30,000 inhabitants in 1971. At the end of 1971 513 places had at least one bank office. Only 78 places had more than one bank office; only 20 had more than three offices; and only three cities had more than ten bank offices, Beograd leading with 22, but closely followed by Zagreb with 19 and Ljubljana with 12 offices.

2. - The National Bank has been the cornerstone of the financial system of Yugoslavia, and almost the only financial institution to operate continuously under the same name (Narodna Banka S.F.R.J.). The main change in the scope of operations of the Bank was the abandonment, in 1961, of the direct financing of enterprises by the Bank which had in the preceding period absorbed a large proportion of its assets — nearly one-half at the end of 1960 —; the transfer of the social accounting control functions to a separate government service; and the resulting concentration of the Bank's activities of its central banking functions, i.e. the issue and control of the country's currency; the supply of central bank money to other financial institutions; and the control, to an extent varying over the period, of the volume and character of bank credit. Because of the virtual absence of government securities and the rigidity of interest rates, the main tools of the Bank have been credit ceilings; partial or complete freezing of some types of financial institutions' deposits with the Bank; and "moral suasion", which in Yugoslavia constitutes a much more powerful instrument than in market economies.

At the end of the period of central planning in 1952, the assets of the Bank were equal to about three-fourths of a year's national product.²⁰ In the following two decades their expansion did not match the rise in national product with the result that in 1972 they were not much in excess of three months' national product.

A pronounced downward trend is also shown in the ratio of the Bank's assets to those of the financial system as a whole (banks and investment funds). This ratio declined from nearly 30 per cent in 1962 to approximately one-sixth in 1966 and 1970. The probably more significant ratio of the Bank's assets to those of the total

²⁰ For annual data on assets and liabilities of National Bank and of commercial and investment banks cf. *NBAR* and *International Financial Statistics*.

monetary system (Bank plus short-term operations of other banks) declined rather slowly, viz. from 64 per cent in 1962 to 56 per cent in 1966 and to 54 per cent in 1970. It would, however, be premature to conclude from this trend alone that the importance of the Bank within the country's financial system declined.

Among assets claims on the government have increased in importance, rising from less than one-fifth in the early 1950's to about one-third in the mid-1960's, but declined to below one-fourth from 1970 on. Claims against enterprises have shown a sharply declining trend — from about two-thirds of total assets in the early 1950's, to a level of about five per cent from the 1960's on. These movements reflect changes in the structure of the country's credit system, particularly the abandonment by the National Bank of direct financing of economic enterprises, and the shifting of the bulk of the short-term financing of enterprises to first the communal banks and then to their successors, the commercial banks.

As a result accommodation of financial institutions, particularly the commercial banks, has absorbed an increasing part of the Bank's resources, close to or more than one-half from 1961 on. Since the 1960's borrowings from the National Bank have constituted an important share of the funds used by the banking system — in the case of the commercial (deposit) banks about 10 to 15 per cent of the total since the mid-1960's.

Notes have supplied an increasing share of the Bank's total sources of funds rising from an average of fully seven per cent in 1952-1956 to about one-sixth from 1959 to 1963, and further advancing to about one-third in 1969-1971. Deposits of banks have followed a similar pattern. Government deposits have shown considerable fluctuations, but have never exceeded one-seventh of total resources, and have shown a declining trend since the mid-1960's, falling to not much over two per cent in 1972. Deposits of enterprises have always constituted an important source of funds, indeed until the early 1960's the most important single source. The decline of their share to, on the average, slightly above one-fourth since 1963 reflects again the attempt to limit the National Bank to the activities typical for central banks in market economies.

Since the National Bank has been one of the most important channels for credits from abroad, foreign liabilities have at times constituted a substantial proportion of the Bank's total sources of

funds, particularly in the early 1950's, when they amounted to about one-tenth, and from the late 1960's on when their share rose from an average of five per cent in 1964-1969 to 13 per cent in 1972.

3. - The deposit (business) banks have concentrated on making short-term credits to enterprises and have done this on the basis of accepting deposits and of borrowing from the National Bank, have changed names, owners, form of organization and a few other characteristics several times during the last two decades, but the structure of their balance sheets has remained reasonably stable since the mid-1950's.

Cash, mostly in the form of deposits with the National Bank, has fluctuated without trend between one-seventh and nearly one-fourth of total assets. Loans to the private sector, predominantly worker-managed enterprises, have been the chief use of funds throughout the period representing in most years around three-fourths of total assets.

Sight deposits, mostly of socialized enterprises since it is still unusual for individuals to have a checking account, have supplied between one-fourth and one-third of total funds without showing a trend. The main structural change in sources of funds has been a sharp increase in the share of time deposits, supposedly supplied mainly by households, and of foreign currency deposits, from an average of one-fourth on the 1957-1965 period to nearly one-half in 1971. This has been offset by a decline in the share of borrowing from the National Bank from about one-half of total sources of funds in 1957-1961 to one of slightly less than 30 per cent in 1966-1971. These movements reflect the attempt of the monetary authorities to make the financial system less dependent on the central bank, and an increase in personal saving in the form of bank time deposits.

Although foreign assets and liabilities have always been of secondary importance for the deposit money banks as a group, it is interesting to observe their increase since the mid-1960's, particularly since the liberalizing reform of 1965. By the early 1970's foreign credits supplied seven per cent of all sources of funds while foreign assets accounted for three per cent of the total.

The total assets of deposit money banks increased between 1957 and 1971 by 1,100 per cent, or at an average annual rate of nearly 20 per cent. The rate of expansion was below ten per cent in only three years, 1959 and 1966-67, the period in which the monetary

authorities pursued a policy of tight credit. On the other hand the expansion exceeded 60 per cent in 1961, possibly reflecting shifts within the banking system, and was above 30 per cent in 1958 and 1962. The expansion of the deposit money banks thus exceeded the growth of national product during most of the period, but did so to a much greater extent in the early than in the later years. The issue ratio of the deposit banks shot up from five per cent of gross national product in 1958-60 to nearly 14 per cent in 1961-67, but returned to a level of close to five per cent in 1965-68 as well as in 1969-71. For the period as a whole the ratio averaged six and one-half per cent compared to the National Bank's ratio of about four per cent. Since for the period as a whole the National Bank supplied about two-fifths of the deposit banks' resources, the consolidated new issue ratio of National Bank and deposit banks was only in the neighbourhood of eight per cent of gross national product.

4. - The institutions that furnish medium- and long-term funds to enterprises and, secondarily, to some public organizations and to households for the acquisition of homes, have undergone even more numerous metamorphoses than the short-term credit institutions. The general tendency has been here too towards replacing Federal government and other public institutions working in accord with centrally determined policies by decentralized investment banks, or long-term credit departments of business (deposit) banks — amalgamated in 1972 with the rest of these banks' activities — operating fairly independently and guided, at least to some extent, by market criteria.

From the mid-1960's on, earlier comparable statistics not being readily available, the investment banks (including the long-term credit departments of deposit banks) which continued the activities of earlier Federal and other public investment funds, have been of very substantial size. Their assets were equal to about three-fifths of a year's national product, the relative stability of the ratio indicating that the investment banks expanded in step with the growth of the economy. This is corroborated by the fact that the banks' new issue ratio averaged nearly 12 per cent of national product from 1958 to 1964 and fully ten per cent from 1965 to 1971.

Probably more relevant is the relation of the net loans made by the investment banks to the volume of total fixed capital formation. For the period 1965-1971 as a whole the ratio was as high as two-

fifths, an indication of the importance of the investment banks in financing capital expenditures, particularly those of socialized enterprises.

The uses of the investment banks' funds showed no marked changes over the period. Loans to the private sector, i.e. predominantly socialized enterprises, accounted in most years for over nine-tenths of the total.

The sources of funds, on the other hand, showed considerable variations, part of which reflect organizational changes. Some of the movements, however, appear to have economic significance. One of these is the increase of time deposits from less than one-tenth of all sources in the mid-1960's to over one-fourth in 1970 and 1971, a movement which reflects increasing use of household saving. Another, offsetting, trend is the decline in the share of funds supplied by public investment funds from about four-fifths of total sources of funds until the mid-1960's to less than three-fifths in 1970 and 1971. Borrowings from the monetary system and from foreign institutions have constituted only secondary sources throughout the period. Foreign liabilities showed a declining trend from over five per cent of all sources in the mid-1960's to not much over one per cent in 1969, but have been slowly rising in the last two years of the period. Borrowings from the monetary system have moved between zero and 14 per cent, and averaged about four per cent, without definite trend.

There is some doubt whether or not the investment funds of the Federal, republican and communal governments and of other organizations should be regarded as financial institutions since they obtain most of their resources from budgetary appropriations rather than through the issuance of financial instruments; and since they make most of their funds available to other financial institutions, mainly investment banks, rather than directly to enterprises. There is no doubt, however, about their importance in the process of financing capital expenditures. From 1963 through 1970 these funds increased their assets from D. 35 billion to nearly D. 90 billion. In relation to national product, however, their assets declined from about 90 per cent to not much over 50 per cent. The increase in their assets was equal to about seven per cent of national product for the period 1963-1970 and was equal to fully one-fourth of total fixed capital expenditures in Yugoslavia.

Insurance organizations have been of negligible importance as

saving or investment institutions, their premium reserves in 1971 being only of the order of D. 0.1 billion equal to about 0.04 per cent of the resources of banks and investment loan funds.²¹

5. - Because of the numerous organizational changes and the large size of lending and borrowing among financial institutions, it is extraordinarily difficult to get a clear picture of the assets and liabilities of the financial system as a whole. In this situation it has seemed best to rely on the flow-of-funds statistics of the National Bank, which are available since 1958, and to supplement them only occasionally from other sources. Because of changes in the presentation of the flow-of-funds accounts since 1972, the tables generally extend only through 1971.

An overview of the development of the country's financial system is probably best based on the new issue ratio, i.e. the ratio of the change in the total sources of funds of financial institutions to gross national product.

The new issue ratio for the entire period from 1958 through 1971 averaged about one-fifth of gross national product. This ratio measures, in the broadest terms, the importance of financial institutions in the economy. For this purpose, however, one refinement is necessary, viz. the elimination of issues that were acquired by other financial institutions, or in accounting terms a shift of the new issue ratio of all financial institutions from a combined to a consolidated basis. If this is done the consolidated new issue ratio for 1958-1971 is reduced to about one-seventh of gross national product.

Within financial institutions investment banks led, on a combined basis, with issues amounting to one-tenth of national product for the entire period 1958-1971, or about two-fifths of the ratio for all financial institutions. Since part of the issues of development banks was taken up by loan funds the adjusted, i.e. consolidated, issue ratio of the banks and the funds was only in the order of five per cent of national product, while their share in the issue of all financial institutions on a consolidated basis is reduced to about one-third, and that of the monetary system rises to about one-half.

An alternative measure of the importance of financial institutions is the relation of their assets to national product. This ratio has kept on a combined basis in the neighbourhood of 200 per cent from the

²¹ D. DIMITRIJEVIC, *Financial Mechanism of the Yugoslav Economy*, mimeo, Jan. 1973.

late 1950's to the late 1960's but has been declining during the last few years to not much over 150 per cent in 1972. On a consolidated basis the ratios would be lower by between one-tenth and one-fifth.

TABLE IV
COMPONENTS OF NEW ISSUE RATIO OF FINANCIAL INSTITUTIONS
1958-1971
per cent of gross national product

	1958-64 (1)	1965-71 (2)	1958-71 (3)
I. Issuance of Money	5.6	2.0	2.9
1. To households	1.2	1.0	1.3
2. To others	4.4	0.9	1.6
II. Non-monetary claims of households against financial institutions	1.3	2.9	2.6
III. Interfinancial issues	2.8	2.8	2.8
IV. Foreign credits	0.3	1.0	0.9
V. Other sources (1)	3.7	10.3	8.7
VI. New Issue Ratio	13.7	19.0	17.9

¹ Includes government budget contribution to investment loan funds.

Source of basic data: *NBAR*, various issues.

An attempt is made in Table IV to break down the combined net issue ratio of financial institutions into components relevant from the point of view of financial analysis. For this purpose four principal components and a heterogeneous residual are being distinguished, viz. the issuance of money; the incurrence of non-monetary liabilities to the household sector; issues to other financial institutions, which must be eliminated from a consolidated new issue ratio; and foreign assets. The residual item then contains chiefly non-monetary liabilities to the domestic enterprise and government sectors.

For the period 1958-1971 as a whole the issuance of money, the incurrence of non-monetary liabilities (chiefly in the form of various types of deposits) to households and interfinancial credits each accounted about one-sixth of total issues. Foreign assets contributed only five per cent, leaving almost one-half for the residual. There were, however, considerable differences between the first and the second half of the period which can be followed in Table IV.

Since particular interest attaches to that part of the issues of financial institutions that is taken up by the household sector, a breakdown of this item in terms of its relation to gross national product is attempted in Table V.

TABLE V
DETERMINANTS OF HOUSEHOLD SAVING THROUGH CLAIMS ON
FINANCIAL INSTITUTIONS, 1958-1972

	1958 to 1964 (1)	1965 to 1971 (2)	1958 to 1971 (3)	1972 (4)
1. Ratio of personal income to GNP	0.45	0.46	0.46	0.46
2. Personal gross saving ratio		0.21		0.23
3. Share of acquisition of financial assets to total gross personal saving		0.51		0.50
4. Share of acquisition of claims against financial institutions in total acquisition of financial assets.	1.00	0.91	0.92	0.98
a. Money	0.53	0.28	0.31	0.35
b. Non-monetary claims	0.47	0.63	0.61	0.63
5. Ratio of households' acquisition of claims against financial institutions to GNP	0.025	0.042	0.039	0.053

Sources: Line 1 United Nations, *Yearbook of National Account Statistics*, various issues; 1972 assumed equal to 1965-71. Lines 2-5 derived from statistics in *NBAR*, various issues.

For the entire period from 1958 through 1971 the acquisition of claims against financial institutions accounted for 92 per cent of total gross financial saving, i.e. the household sector's acquisition of financial assets of all types. This is an extraordinarily high ratio in international comparison, and reflects the restricted range of financial assets in Yugoslavia, in particular the absence of government bonds and of corporate securities. The acquisition of financial assets, in turn, was equal to one-half of total gross personal saving, the other half taking the form of purchases of dwellings and of consumer durables, as well as of producer durables by private entrepreneurs in agriculture and in the small private non-agricultural sector. Total gross personal

saving amounted to about one-fifth of total personal income. Personal income, in turn, was equal to slightly less than one-half of gross national product, a ratio not uncommon in centrally planned economies, but considerably lower than in market economies.

The substantial increase in the ratio of household claims against financial institutions from the first to the second half of the period — from two and one-half to over four per cent of gross national product — is due primarily to a full doubling of the personal saving ratio from one-twelfth to one-fifth of personal income. The share of the acquisition of claims against financial institutions in gross financial saving declined moderately. While the share of the household sector's absorption of money fell by nearly one-half, the share of non-monetary claims against financial institutions in households' total gross financial saving rose from less than one-half to nearly two-thirds. This probably is again an effect of the widening of the range of financial assets other than money in the second half of the 1960's.

Table VI provides an overview of the structure of the assets and liabilities of all financial institutions derived from a combination of the consolidated balance sheets of the four groups of financial institutions distinguished in the flow-of-funds statistics, for the four benchmark dates 1958, 1962, 1966 and 1972.

Investment credits have at all dates since 1962 represented the largest single use of funds of financial institutions taken together, and constituted between two-fifths and one-half of total assets. Short-term bank credits were generally the second largest component of financial institutions' assets, but their share declined sharply for nearly one-half of total assets in 1958 to one-sixth in 1972.

Among sources of funds (excluding budget contributions to investment funds) the issuance of money provided nearly one-half of the total in 1958 and in 1962, but only one-fifth in 1966 and 1972. The different types of deposits accounted for most of the remainder. The wide fluctuations in the shares of individual types of deposits reflect in part the organizational changes in the Yugoslav credit system and changes in nomenclature that have already been discussed. The sharp increase in the share of longer-term deposits since the mid-1960's, however, is likely to reflect, at least in part, a structural change in depositors', and particularly, in households' attitudes and portfolios.

6. - In the absence of corporate stock and the extremely small volume of government or enterprise bonds, of transferable mortgages, and of insurance contracts, the range of financial instruments in Yugoslavia is practically restricted to currency — until 1952 the only freely transferable financial asset —, and to about a dozen of types of deposits and short- and long-term credits, none of which is marketable, but which can be turned into currency, or deposit money, by presentation to the issuer either immediately or after an interval stipulated in the deposit agreement.

Notwithstanding this limited range of financial instruments they have been issued in Yugoslavia to an extent that exceeds that found in most underdeveloped and even in some developed countries. Table VI shows the probably most relevant measure of the importance of the different financial instruments, the ratio of the change in amounts outstanding to the period's aggregate gross national product. The presentation is limited to the second half of the life of the S.F.R.J., the years 1958 to 1971, the only ones for which comprehensive and comparable data are available in the National Bank's flow-of-funds statistics.

For the entire period net issues of all types of financial instruments averaged just above one-half of gross national product, a very high ratio in international comparison. Even if issues of financial institutions absorbed by other financial institutions are eliminated, the consolidated issue ratio of about 40 per cent of national product is still quite high in comparison to other countries.

While the period is too short and too much influenced by organizational changes in the Yugoslav economy to establish long-term trends, the ratio has shown a definite upward movement up to 1971, rising from less than two-fifths in 1956-1960 to over one-half in 1965-1971.

The most important breakdown of the aggregate ratio is that between financial instruments issued by financial institutions and those issued by non-financial sectors. For the period as a whole the two net issue ratios were nearly 60 per cent for the former and nearly 20 per cent for the latter, leaving about 15 per cent for domestic issues difficult to classify as to issuer, and about five per cent for foreign credits. Of the issues by domestic non-financial sectors somewhat over one-half represented borrowing from financial institutions while the rest consisted of direct (trade) credits among

TABLE VI

STRUCTURE OF BALANCE SHEET OF ALL FINANCIAL INSTITUTIONS ¹
1958, 1962, 1966 and 1972
per cent

	Uses				Sources ²			
	1958 (1)	1962 (2)	1966 (3)	1972 (4)	1958 (5)	1962 (6)	1966 (7)	1972 (8)
1. Money	2.6	3.1	0.9	0.3	45.1	47.0	20.3	20.2
2. Other liquid assets	2.7	0.7	0.1	0.0	44.0	42.7	17.9	16.2
3. Non-liquid assets	—	—	8.6	4.9	3.2	—	24.8	21.8
4. Short-term bank credits	46.7	41.0	25.2	16.1	—	—	1.2	0.0
5. Investment credits	40.8	50.9	42.4	51.5	—	—	0.6	8.2
6. Direct credits	—	—	0.1	0.4	—	—	1.2	0.0
7. Foreign exchange items	2.4	3.5	4.0	7.1	4.0	5.0	2.9	14.6
8. Others (3)	4.8	0.9	18.7	19.6	2.8	5.4	31.1	18.8
9. Total, per cent	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
10. Total, bill. D.	28.2	63.9	169.5	406.2	14.1	30.4	117.8	300.3
11. Total, per cent of GNP (4)	140	150	151	146	70	72	105	107

¹ Monetary system, investment banking and Federal and other government investment funds.

² Not including government budget contribution to investment funds.

³ Mainly debts and credits between banks and investment funds.

⁴ After elimination of relations between financial organizations the ratios are 120 in 1966 and 125 in 1972 for uses, and 74 in 1966 and 88 in 1972 for sources.

Source of underlying figures: NBAR, various issues.

economic units belonging to non-financial sectors. Changes in these sectoral net issue ratios during the 1958-1971 period, were generally moderate.

VI. Financing the Main Sectors of the Economy

1. - The way in which the main sectors are financed, i.e. the forms and sources of their liabilities and capital, and the forms and destination of the funds they use, constitute one of the main charac-

teristics of a country's financial structure. In Yugoslavia the necessary data exist, from 1958 on, in the flow-of-funds statistics of the National Bank, although as usual most of the sectors cover very large and partly heterogeneous groups of economic units. The household sector, in particular, includes without distinction both wage earners, other consumers and the business-type financial activities of farmers and entrepreneurs in the private sector. The discussion in this section is necessarily based on the flow-of-funds accounts in their published form and therefore must follow the sectoring and the selection of financial instruments adopted in the accounts.

TABLE VII

NET NEW ISSUE RATIOS OF FINANCIAL INSTRUMENTS, ¹ 1951-1971
per cent of gross national product

	1951 to 1957 (1)	1958 to 1960 (2)	1961 to 1964 (3)	1965 to 1971 (4)	1958 to 1971 (5)
1. Currency	0.82	0.81	1.33	1.37	1.33
2. Deposit money (inclgd. float)	2.89	2.85	5.10	0.82	1.62
3. Savings and other sight deposits	1.32	1.11	1.55	1.18	1.24
4. Time deposits up to 12 months	—	—	0.21	—0.03	0.13
5. Restricted deposits	1.32	1.71	2.31	1.49	1.63
6. Time deposits } over 12 months	—	0.22	0.50	3.31	2.67
7. Securities } maturity	—0.08	—	0.40	0.12	0.16
8. Contrib. to bank credit fund	—	—	—	0.89	0.70
9. Short-term bank credits	10.00	6.97	8.82	4.77	5.55
10. Investment } from banks	—	—	15.58	10.82	10.87
11. credits } from other fin. orgs.	9.50	11.79	0.79	—0.90	0.18
12. Direct (trade) credits	5.85	7.36	3.45	13.77	11.74
13. Financial transfers . . . . .	.	1.44	2.71	0.34	0.78
14. Gold and foreign exchange . . . . .	.	0.02	0.49	1.25	1.05
15. Domestic for. exchange accounts . . . . .	.	0.05	0.04	1.78	1.39
16. Foreign } short-term . . . . .	.	1.34	1.03	1.56	1.47
17. credits } long-term . . . . .	.	1.33	1.08	2.43	2.15
18. Others	4.10	2.16	1.76	7.65	6.37
19. All instruments	35.72	39.17	47.15	52.65	51.03

¹ Change in outstandings divided by period's gross national product.

Source of basic data: NBAR, various issues. (Col. 1: D-M, Table 1.6).

Before discussing the financing of the main non-financial sectors an overview based on the total financial assets and the net issues of both the non-financial and the financial sectors during the period 1958-72 presented in Tables VII and VIII may be helpful in facilitating orientation.

First, the total financial assets of all non-financial sectors together grew about as rapidly from 1958 to 1966 as gross national product, but considerably faster from 1966 to 1972. Secondly, the non-financial sectors held over one-third of all financial assets outstanding in Yugoslavia from 1958 to 1966, but over two-fifths in 1972. Thirdly, enterprises accounted for about 70 per cent of the total financial assets of all non-financial sectors, while the share of households increased from one-tenth to one-fifth.

Fourthly, the net issues of financial instruments by the non-financial sectors were equal to about two-thirds of total issues if trade credit is regarded as such, and to fully one-half if it is excluded.

Fifthly, the new issue ratio of all domestic non-financial sectors was remarkably stable at fully 30 per cent of gross national product — a very high value in international comparison — during the period of 1958-1971 as well as for the two subperiods of 1958-1964 and 1965-1971 which are separated by the financial reform of the mid-1960's.

Sixthly the outstanding change in the relative importance of the several sectors as buyers of financial assets is the increase in the acquisition of financial assets by all domestic non-financial sectors from 35 per cent in 1958-1964 to 45 per cent in 1965-1971, accounted for by the rise of the shares of enterprises from about 25 to 35 per cent and of that of households from six to ten per cent. Both movements are another reflection of the increasing emphasis on indirect financing after the reforms of the mid-1960's.

2. - The "economic organization" sector covers all socialized worker-managed enterprises and therefore includes the bulk of all producing units except in agriculture and to a lesser degree in handicrafts and small retail trade. It is thus similar in coverage to the corporate and government enterprise sectors in market economies.

In 1970 11,000 economic organizations were reported as operating in Yugoslavia²² and it may be assumed that they are practically

²² S.G., 1972, 126 ff.

TABLE VIII
TOTAL FINANCIAL ASSETS AND ISSUES OF MAIN SECTORS; 1958, 1962, 1966 AND 1972

	1958 (1)	1962 (2)	1966 (3)	1972 (4)	1958 (5)	1962 (6)	1966 (7)	1972 (8)
	<i>I. Amounts; bil. D</i>				<i>II. Distribution; per cent</i>			
1. Enterprises	12.9	24.6	63.9	237.9	27.8	24.0	23.9	28.9
2. Federal government	1.6	1.6	2.8	4.5	3.4	1.6	1.0	0.6
3. Other soc.-pol. communities	0.2	0.8	1.6	9.6	0.4	0.8	0.6	1.0
4. Other organizations	1.7	4.8	10.5	23.9	3.6	4.7	3.9	2.9
5. Households	1.9	4.5	14.4	68.4	4.1	4.4	5.4	8.3
6. All dom. non-fin. sectors	18.3	36.3	93.2	344.3	39.3	35.4	34.8	41.9
7. Monetary system	13.9	29.0	50.1	363.6	29.8	28.3	18.7	43.8
8. Investment banks	—	—	65.6	—	—	—	24.5	—
9. Investment } Federal	8.0	20.3	29.6	116.2	17.2	19.8	11.1	14.1
10. loan funds } Other	6.4	14.6	24.2	13.7	13.7	14.2	9.0	—
11. All dom. financial sectors	28.3	63.9	169.5	479.8	60.7	62.3	63.3	57.9
12. Unclassified (1)	—	2.4	5.0	1.5	—	2.3	1.9	0.2
13. All domestic sectors	46.6	102.6	267.7	825.6	100.0	100.0	100.0	100.0
	<i>III. Relation to GNP; per cent</i>				<i>IV. Acquisition ratio; per cent of GNP²</i>			
1. Enterprises	59	58	57	85	8.3	12.1	16.9	14.5
2. Federal government	7	4	3	2	0	0.4	0.2	0.2
3. Other soc.-pol. communities	1	2	1	3	0.4	0.3	0.7	0.6
4. Other organizations	8	11	9	9	2.2	1.8	1.2	1.4
5. Households	9	11	13	24	1.9	3.1	5.0	4.3
6. All dom. non-fin. sectors	84	86	83	123	12.8	17.5	23.1	21.0
7. Monetary system	63	68	45	130	10.7	6.5	22.8	—
8. Investment banks	—	—	59	—	—	20.2	—	22.5
9. Investment } Federal	37	48	26	42	8.7	2.9	5.7	6.6
10. loan funds } Other	29	34	22	172	5.8	3.0	28.5	—
11. All dom. financial sectors	129	150	152	172	25.3	32.5	—	29.0
12. Unclassified (1)	—	6	4	1	1.7	0.8	-0.3	0.1
13. All domestic sectors	213	242	239	296	39.8	50.9	51.2	50.1

¹ Includes discrepancies. ² Figures refer to periods 1959-62, 1963-66, 1967-72 and 1958-72 respectively.
Source of basic data: NBAR, 1971 (for 1958-1966) and 1972.

identical with the economic units covered by the sector account of the flow-of-funds system. Most of these organizations were small. Nearly four out of five had less than 250 employees, and only one out of six had a capital of over D. 1-1/2 million (\$120,000) or a net product of over D. 1 million (\$80,000). At the other end of the scale there were 230 enterprises with more than 2,000 employees, nearly as many firms with a capital exceeding D. 15 million (\$1.2 million) and nearly 80 enterprises with a net product of more than D. 15 million.

For the period 1958-1971 as a whole economic enterprises had a financial deficit equal to nine per cent of gross national product — a high level in international comparison — since their gross saving of 16 per cent of national product did not suffice to cover their gross investment of 25 per cent of national product. Such a deficit is found in practically all countries except for short periods. (On a net basis saving would be equal to slightly over ten per cent and investment to nearly 20 per cent of net national product). For the period as a whole the gross saving of economic organizations represented about two-fifths of the national total, while their investments accounted for three-fourths of it.

Although total funds raised remained at approximately the same level compared to national product viz. approximately one-sixth, their structure changed considerably between the first and the second subperiods. Thus the share of investment credits was nearly cut in half from almost three-fifths to less than one-third, and that of short-term credit declined slightly. On the other hand direct (trade) credits increased greatly in importance from only one-sixth to nearly one-half of all issues, and in the second subperiod were equal to over 140 per cent of the increase in inventories compared to less than 50 per cent in the first subperiod.

As a part of the financial reforms of the mid-1960's the authorities tried to encourage the sale of bonds of economic enterprises to financial institutions and particularly to private investors. Until the late 1960's such issues remained very rare. In 1970 and 1971, however, the issue of non-government bonds increased sharply, half a dozen issues in each of these two years raising D. 2.25 billion and D. 1.65 billion respectively,²³ equal to 1.3 and 0.7 per cent of national product or, a more relevant comparison, about six per cent

²³ *Jugoslavensko Bankarstvo*, March 1972, 44 ff.

in 1970 and four per cent in 1971 of total funds raised by economic organizations.

Changes in the relative importance of financial uses of funds were also substantial. Accumulation of liquid or semi-liquid financial assets absorbed about one-third of all financial uses of funds in the first subperiod, but only one-seventh in the second. On the other hand, the share of direct credits to customers and suppliers rose from one-half to over three-fifths of all financial uses of funds. This considerable increase in the relative importance of direct (trade) credit among both uses and sources of funds of economic organizations probably reflects changes in the methods of doing business among enterprises, as the relative importance of inventory accumulation remained unchanged at about one-fifth of all uses of funds (gross investment plus acquisition of financial assets).

3. - Since the units that would in a market economy be classified as government enterprises are included in the Yugoslav flow-of-funds statistics in the economic organizations sector saving and budget contributions to investment loan funds are treated as current expenditures, investment and financial uses and sources of funds of government proper are very small.

For the period from 1958 through 1971 the gross saving of all government units amounted to only slightly more than one per cent of national product, saving of nearly two per cent by republican, etc. governments being partly offset by dis-saving of the Federal government. Government investment was small (1.6 per cent) and mostly undertaken by republican and local governments. Thus government saving financed only about one-third of government investment, although it did so to the extent of about 95 per cent in the case of republican and local governments. The financial deficit of all governmental units of 1.5 per cent of national product, together with small additions to financial assets, was financed mainly by short-term domestic bank credit and by foreign credits. Government loans were limited to two small issues in 1948 and 1950 and to a fairly small loan in 1963-64 for the reconstruction of Skopje after a severe earthquake.²⁴

Differences between the two subperiods are substantial. Thus the financial deficit was cut in half from 2.5 in 1958-1964 to 1.2 per cent of national product in 1965-1971, and borrowing declined from

²⁴ *D-M*, 39, 65.

nearly four per cent of national product in the first to less than two per cent in the second subperiod. The reduction affected both domestic short-term bank credits which declined from 1.6 to 1.0 per cent of national product; and foreign long-term credit which was reduced from about one to one-half per cent of national product, foreign borrowing by Yugoslav financial institutions being substituted for direct foreign borrowing by the Federal government.

4. - The heterogeneous sector of "other organizations" showed for the period as a whole a small financial surplus — slightly below one per cent of gross national product — the result of gross saving of less than three per cent and gross investment of almost two per cent. Its financial activities were likewise small. Acquisition of financial assets amounted to only one and one-half per cent of national product, predominantly in the form of sight and time deposits. Almost all of the small borrowings were in the form of investment credits from banks.

5. - Contrary to the experience in most market economies the household sector, including farms and shops outside the socialist sector, accounted in the 1958-1971 period for not much more than one-fourth of the saving of all non-financial sectors, far behind economic organizations, but well ahead of the government. Since, however, the sector was responsible for only one-seventh of national investment, its financial surplus with 2.6 per cent of national product was larger than that of any other sector.

Acquisition of financial assets equalled slightly more than four per cent of national product, or about ten per cent of personal disposable income, a fairly high ratio in international comparison. As a result of the limited range of financial instruments available to investors over 30 per cent of the increase in financial asset holdings took the form of accumulation of currency, partly necessitated by the sharp rise in the price level. This is suggested by the fact that the currency holdings of households in 1970 were equal to about one-sixth of personal consumption, a proportion only slightly higher than the one-seventh of 1962. Savings and other sight deposits on the one hand, and time deposits maturing in more than twelve months on the other, accounted for about one-fourth and one-seventh respectively of the total accumulation of financial assets.

TABLE IX
SOURCES AND USES OF FUNDS OF HOUSEHOLDS, 1958-1972

	Per cent of Gross National Product				Distribution, per cent			
	1958 to 1964 (1)	1965 to 1971 (2)	1958 to 1971 (3)	1972 (4)	1958 to 1964 (5)	1965 to 1971 (6)	1958 to 1971 (7)	1972 (8)
1. Gross saving	3.6	8.6	7.5	10.5	—	—	—	—
2. Gross investment	2.9	5.5	4.9	5.8	—	—	—	—
3. Fin. surplus (+) or deficit (—)	0.7	3.1	2.6	4.7	—	—	—	—
4. Currency	1.1	1.3	1.3	1.8	50	28	31	35
5. Savings and other sight deposits	0.8	1.2	1.1	0.8	36	25	26	16
6. Time deposits over 12 months	0.1	0.8	0.6	0.6	5	17	14	12
7. Short-term bank credit	-1.2	-0.0	-0.3	0.2	75	0	19	-42
8. Investment credits	-0.4	-0.9	-0.8	-0.9	25	56	50	155
9. Direct credits, net	—	-0.7	-0.5	0.1	—	44	31	-13
10. Domestic for. exchange accounts	0.0	1.0	0.8	1.3	0	21	19	25
11. Other instruments	0.2	0.4	0.4	0.6	9	9	10	12
12. Total, net	0.5	3.1	2.6	4.7	100	100	100	100
a. Uses	2.2	4.7	4.2	5.3	100	100	100	100
b. Sources	1.6	1.6	1.6	0.6	100	100	100	100

Source of basic data: NBAR, various issues.

Borrowing by households was equal for the period as a whole to not much over one and one-half per cent of national product, and to about three per cent of personal consumption. In view of the recent introduction and limited availability of instalment credit it is likely that most of the debt of the household sector was contracted by consumers to finance the acquisition of their home or by farmers, craftsmen and small retailers for use in their businesses.

The striking and significant feature of the household sector's uses-and-sources-of-funds account is the difference shown between the two subperiods of 1958-1964 and 1965-1971. In the earlier subperiod currency accounted for one-half of the increase of all financial assets, while the share of currency in the later period was not much in excess of one-fourth. The share of short-term deposits did not change much declining from over one-third to one-fourth. Time deposits with a maturity of over 12 months, however, increased from only five per cent to one-sixth of the total acquisition of financial assets. Deposits with domestic banks in terms of foreign currency, which were introduced during the second period, nevertheless accounted for one-fifth of all financial asset acquisition of the household sector for the entire period. All shifts indicate a tendency on the part of households to pay greater attention in the allocation of their savings to the interest rate paid on the different instruments and to their resistance to erosion by increases in the domestic price level. The same tendency is evident in the increase in the ratio of acquisition of tangible assets to disposable income, though the ratio of gross saving through tangible and saving through financial assets did not increase. This, however, may reflect the difficulty consumers still have in acquiring homes and cars rather than a voluntary decision on their part not to change the allocation of their saving between real and financial assets.

The household sector is so heterogeneous that serious analysis requires a breakdown into its main components. No such breakdown is provided in the flow-of-funds, nor is it available elsewhere. In this situation there is some interest in the information on the saving and dis-saving of a sample of households in 1968,²⁵ notwithstanding the well known limitations of such surveys and the usual inability of reconciling the survey findings with the aggregative figures of the flow-of-funds statistics. For this reason the survey results should be used only to learn something about the differences in the volume and

²⁵ SAVEZNI ZAVOD ZA STATISTIKU, *Statistički Bilten*, No. 654, 15.

structure of saving of households of different income levels, but not to derive by blow-up estimates of aggregate saving and of its components.

The survey shows only few clear relationships between level of household income and the various components of saving and dis-saving. Financial saving (accumulation minus reduction of financial assets) averages only two per cent for the entire sample — considerably less than the ratio derivable from the flow-of-funds accounts — and shows very little correlation with income, rising only from an average of slightly above one per cent of income in the four lowest income groups to between two and three per cent for the middle income groups and becoming fractionally negative for the highest group. The positive value of total saving (i.e. gross saving less dis-saving, but without allowance for depreciation on dwellings and consumer durables which averages 16 per cent for all income groups), as well as the rise in the ratio from less than four per cent in the lowest to 30 per cent in the highest income group, are due to the relatively large excess of expenditures on dwellings and consumer durables over consumer credit. Even after allowing for depreciation the ratio of net saving through tangible assets should be in the neighbourhood of seven to nine per cent of income, rising from about two per cent in the lowest to at least 15 per cent in the highest income group.

VII. The National Balance Sheet

The national balance sheet, which brings together estimates of the value of the main types of tangible assets and of financial instruments, may be regarded as a convenient summary of a country's financial structure at a given date. Since estimates exist for national wealth and, in particular, for reproducible tangible assets, up to the mid-1960's, and since the National Bank's flow-of-funds accounts provide annual figures for the financial assets and liabilities of about ten sectors from 1957 on, it is possible to draw up annual sectorized national balance sheets for over a decade starting in 1957, although figures for the value of land have to be roughly estimated. For this study, which is primarily devoted to longer term movements, annual national balance sheets are not needed, but it is necessary to have

them for at least one year in the early stages of Yugoslavia's financial development and for one fairly recent year. An attempt has, therefore, been made to draw up a national balance sheet for the years 1952, 1962 and 1972, the figures for financial assets in 1952 being largely conjectural. The balance sheets distinguish only two sectors, the first consisting of the five non-financial sectors of the National Bank's flow-of-funds system, while the second combines the system's three or four groups of financial institutions. Full sectorization is not feasible for 1952 because the flow-of-funds system does not go back to this year; nor for 1972 because of the absence of a sectorized national wealth estimate and the impossibility, or at least the very great difficulty, of developing such an estimate independently. The balance sheets for 1952, 1962 and 1972 are shown in Table X in absolute figures at current prices.

What is probably the most important single indicator of financial structure, the financial interrelations ratio, i.e. the ratio of financial to tangible assets, has shown a definite and continuous upward trend, rising from not much over 0.20 in 1952,²⁶ to about 0.50 in 1962 and approximately 0.65 in 1972, a ratio near to that one would expect among market economies of a country at Yugoslavia's present level of development.²⁷ While all these estimates are subject to a wide margin of error there can be little doubt that the financial interrelations ratio of Yugoslavia rose sharply during the 1950's and continued to advance substantially, though less spectacularly, during the 1960's.

The observed financial interrelations ratio of 1972 of 0.66 may be compared with the value of the ratio obtained from the formula²⁸

$$FIR_{72} = \tau [\alpha \beta_{72}^{-1} (\delta + \varphi + \xi)] + \frac{F_{62}}{W_{72}}$$

where τ (the truncation ratio); α (the multiplier, very close to the reciprocal of the rate of growth of gross national product in current prices); δ , φ and ξ (the net issue ratios of non-financial sectors, financial institutions and the rest of the world) all refer to the two decades 1953-1972.

²⁶ The estimate for 1952 is the result of assuming that the total value of financial assets moved between 1952 and 1958 parallel to total liquid resources as shown in *D-M*, 250.

²⁷ These estimates are compatible with those of G. Nikic who puts the ratio of financial assets to reproducible tangible assets — necessarily higher than the financial interrelations ratio — at 0.51 for 1958, 0.64 for 1962 and 0.69 for 1966.

²⁸ For the derivation of this formula see R. W. GOLDSMITH, *Financial Structure and Development*, 1969, 86 ff.

TABLE X
NATIONAL BALANCE SHEET, 1952, 1962 AND 1972
bill. dinars

	Nonfinancial Sectors			Financial Institutions			All Domestic Sectors			
	1952 (1)	1962 (2)	1972 (3)	1952 (4)	1962 (5)	1972 (6)	1952 (7)	1962 (8)	1972 (9)	
I. Tangible Assets										
1. Land	21	45	180	—	—	—	21	45	180	
2. Reprod. tang. assets	56	128	650	—	—	—	56	128	650	
3. Inventories	9	53	380	—	—	—	9	53	380	
4. All tangible assets .	86	226	1210	—	—	—	86	226	1210	
II. Financial Assets										
1. Issued mainly by financial institutions										
a. Money	U	3.2	10	59	—	2	1	3.2	12	60
	S	—	—	—	3.2	14	60	3.2	14	60
b. Deposits	U	3.5	7	87	—	0	20	3.5	7	107
	S	—	—	—	3.5	13	117	3.5	13	114
c. For. exch. accts.	U	0.9	1	22	0.4	1	13	1.3	1	35
	S	0.4	8	56	0.9	2	44	1.3	19	100
2. Issued mainly by others										
a. Short term bank credits	U	—	—	—	7.1	26	66	7.1	26	66
	S	7.1	25	66	—	—	—	7.1	25	66
b. Investment credits	U	—	—	8	—	32	209	—	32	217
	S	—	32	209	—	—	8	—	32	217
c. Direct credits	U	(2.0)	13	155	—	—	2	(2.0)	13	157
	S	(2.0)	12	152	—	—	—	(2.0)	12	152
3. Gold & for. exchange	U	—	—	6	0.1	1	16	0.1	1	22
	S	—	—	—	—	—	—	—	—	—
4. Other financial assets	U	.	1	7	.	1	81 ¹	.	2	88 ¹
	S	.	—	3	.	2	85 ¹	.	2	88 ¹
5. All financial assets	U	(9.6)	31	344	7.6	62	407	17.2	93	751
	S	(9.5)	7	486	7.6	31	310	17.1	108	796
III. All assets		96	257	1554	8	62	407	103	319	1961

¹ Includes 56 claims and liabilities among financial institutions.

Source of basic data: NBAR, various issues.

Inserting the appropriate observed approximate values into the above equation yields

$$\text{FIR}_{72} = 0.96 [6.6 \times 0.26 (0.26 + 0.16 - 0.03)] + 0.01 = 0.65$$

indicating a close correspondence between the observed value and that derived from the formula. More importantly, the formula indicates that the observed value of 0.65 is the result of a combination of a relatively low value — in international comparison — of α , which in turn reflects the high rate of growth of gross national product in current prices (nearly 18 per cent per year), with high new issue ratios of non-financial and financial sectors.

In 1952 the value of land has been estimated by Vinski as equal to about one-fourth of that of tangible reproducible assets and hence to about one-fifth of total national wealth. In the absence of later estimates it may be assumed that these ratios, which are of interest for the analysis of financial structure because of the usually different methods of financing land, structures, equipment and inventories,

Sources Table X:

Lines I-1	1952	I. VINSKI, <i>Procjena Nacionalnog, Bogatstva po Prodnucjima Jugoslavije</i> , 1959, 276.
	1962, 1972	Extrapolated from 1952 value on basic changes in line 2 and in agricultural prices.
Line I-2	1952, 1962	Grdjic, 24; estimate for 1952 obtained by multiplying Grdjic's figure in 1962 prices by average of industrial goods and construction cost prices, (<i>S.G.</i> , 1972).
	1972	Obtained by adding to 1962 figure annual net capital formation in 1962 prices and multiplying cumulated figure by ratio of 1970 to 1962 prices of average of industrial goods prices and construction costs; rough extrapolation from 1970 to 1972.
Line I-3	1952, 1962	Grdjic, <i>loc. cit.</i> ; estimate for 1952 obtained by multiplying Grdjic's figure in 1962 prices by gross national product deflator.
	1972	Obtained by adding to 1962 figure annual inventory accumulation in current prices (<i>S.G.</i> , 1972, 104) reduced to 1962 prices and multiplying cumulated figure by ratio of 1970 to 1962 gross national product deflator; rough extrapolation from 1970 to 1972.
Lines II 1-5	1952	<i>Statisticki Bilten</i> , Feb. 1962, 87, except for line II-2c, which is a very rough estimate.
	1962	<i>NBAR</i> , 1970, 66 ff.
	1972	<i>NBAR</i> , 1972, Appendix II.

have declined in line with the industrialization of the country and the accompanying reduction of the relative importance of agriculture. If land prices are assumed to have moved parallel to agricultural prices, the ratio would have fallen by 1972 to about one-sixth of reproducible tangible assets and to about one-seventh of national wealth.

In Yugoslavia probably the main distinction to be made among financial instruments is based on maturity, because short-term instruments were until very recently supposed, at least in theory, to be used exclusively for the financing of inventories and other short-term activities, the financing of fixed assets being limited by the availability of long-term funds. It is then found that short-term financial instruments (defined to include all instruments other than investment credits, contributions to credit funds of banks and foreign long-term credits) accounted for about three-fifths of all financial assets in 1962 and in 1972. If, however, the net worth of economic organizations and of financial institutions were added to long-term claims, the share of short-term instruments in the total of financial instruments outstanding would be much lower, certainly well below one-half.

VIII. Developments in 1972 and 1973

In 1972 and 1973 the Yugoslav economy passed through a period characterized by poor crops, a deceleration in the rate of growth of non-agricultural production though the volume of industrial output continued to grow at an annual rate of seven per cent, and a stagnation of the volume of real investment and in real wages on the one hand; and a rapid expansion of the volume of money and credit and the assets of financial institutions as well as a continuation of a rapid rise in the price level and a devaluation of the dinar in relation to the dollar by about 15 per cent, on the other. The main consolation was a considerable improvement in the balance of payments position, reflecting a freezing of the volume of imports in the face of a substantial increase in exports, tourist receipts and workers' remittances, which permitted an increase in the gross foreign assets of the banking system from 6 bill. dinar at the end of 1971 to 26 bill. two years later — still only seven per cent of national product and less than four months' imports —, though net foreign reserves were still minimal, at only 5 bill. dinar, even at the end of 1973.

In the two years ending with 1973 the volume of money in circulation almost doubled, in part reflecting a sharp increase in net foreign receipts which the National Bank did not succeed in neutralizing. Demand deposits rose by 120 per cent while non-monetary deposits expanded by only 35 per cent, due mainly to the slow growth in deposits with a maturity of over 12 months and of restricted deposits. The assets of financial institutions expanded by nearly 50 per cent. The rise in the price and wage level of about 40 per cent, while considerably higher than in preceding years (1967-71 average less than nine per cent), remained considerably below the expansion of the volume of money and credit, even allowing for the small increase in the volume of output, indicating a substantial lag, already observed in the past in Yugoslavia, in the effect of changes in the quantity of money on the price level.

Some important institutional changes occurred late in 1972 which began to be reflected in the data for 1973 and are likely to become more important in later years. Among them is the abolition of the long standing formally sharp separation between the short-term deposits and operations of banks on the one hand and medium-term deposits and loans on the other, a separation probably often observed more in the letter than in the spirit. Another is a further concentration and branch expansion among business banks, coupled with a geographic decentralization of decision making within each of the large banks or bank groups with respect to domestic, though not to foreign, operations, a development which is in line with similar tendencies in other sectors of the economy.

IX. The Significance of the Yugoslav Experience

The principal lesson of the Yugoslav experience over the last three decades is the possibility, but at the same time the great difficulty, of combining a system involving communal (government or workers') ownership of most means of production as well as a substantial degree of planning and of financing investment by the central and local governments, with the existence of a genuine financial system, that collects the voluntary savings of individuals and enterprises, that distributes credits to a considerable degree on the basis of the judgment of its managers rather than following government directives, that finances foreign trade on essentially business

principles, and that discharges its functions with a reasonable and increasing degree of efficiency and competence. This is no mean achievement. Nothing like it has been attempted in any centrally planned economy. In fact, the Yugoslav financial system may at the present time be less dependent on or subject to government guidance and interference, and be more effective as an allocator of funds than is the case in many third world countries that have nominally maintained private ownership of most means of production.

It has taken the Yugoslav financial system most of the last two decades to reach this level of independence and efficiency, not without occasional setbacks; and the main progress has been made since the general economic reforms of the mid-1960's. Among the more important features of this development are (a) the concentration of the Narodna Banka on its central banking functions, abandoning most of direct lending to enterprises and government organizations, which constituted a substantial part of its activities in the first half of the period, to the deposit (business) banks and transferring its social accounting functions to a separate and independent government agency; (b) the development of deposit banks from local and generally small and primitive institutions limited in their lending and fund collecting activities to enterprises, other organizations and individuals in their community, to variegated financial intermediaries operating along modern methods through a net of branches or affiliates over a narrower or wider territory, in some cases the entire Federal Republic, a development involving a rapid process of concentration in a small number of large institutions, which is now as pronounced as in Western countries; and (c) recently the abandonment of the previous formally strict separation between short-term financing of working capital and the medium- and long-term financing of fixed assets, and of the corresponding separation of deposits with short or longer (above 12 months) maturity, a principle which had originally led to the creation of separate institutions for these two types of operation and later to the coexistence within one institution of two departments with separate accounts and separate sources of funds. As a result the Narodna Banka and the deposit banks now do not basically differ in their character and operations from their counterparts in the West. A similar trend towards "westernization" is visible in the last few years in the sharply increasing share of household saving as a source of funds.

The Yugoslav financial system nevertheless still carries not a few marks of its origin in which money was the only financial asset available to the public and a monobank exercised far-reaching control over all financial activities in accordance with a centrally determined plan. Thus the range of financial assets available to enterprises and households is still very limited, essentially to about half a dozen types of deposits with business banks, a range significantly including deposits in term of foreign currencies. The volume of bonds outstanding is minimal and there are, of course, no corporate shares, except those of the business banks which are available only to government organizations and enterprises though they are transferable among them. There is no market for short- or long-term debt instruments and hence no possibility of open-market operations by the Central Bank. Similarly banks constitute the only financial institutions accessible to the public, other types such as life insurance organizations or parallels to Western mortgage, consumer finance or investment institutions being non-existent or of hardly any importance. On the other hand the government investment loan funds, financed from the budget, still play a very important role, accounting for over one-fourth of the assets of all financial institutions though much of their lending, essentially on medium- and long-term, is now channelled through the deposit banks. Finally, interest rates applied at relatively low, stable and undifferentiated rates to loans as well as deposits are still unable to exercise their function as allocators of funds and have generally been negative in real terms throughout most of the period.

How the recent effort to reassert the prerogatives of the central government and of the party in the economic as well as in the political sphere and at the same time further to decentralize decision making and to increase the substance of worker management in enterprises will affect the Yugoslav financial system remains to be seen. There is reason to believe, however, that the system is now sufficiently developed and flexible enough to adapt itself to the changes that may become necessary, and to continue doing a reasonably efficient job in financing the country's domestic investment and its international transactions.

RAYMOND W. GOLDSMITH

New Haven