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Recent Credit and Monetary Developments in Yugoslavia
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RECENT CREDIT AND MONETARY DEVELOPMENTS IN YUGOSLAVIA

Edward Ames

In recent months, it has become possible to follow financial developments in Yugoslavia more closely than has ever before been possible in a communist economy. This has resulted from the fact that the International Monetary Fund has recently resumed publication of balance sheet data of the National Bank and in April a Yugoslav statistical monthly, Indeks, began publication. Tentative conclusions on Yugoslav credit and money may now be drawn from the data available. The present situation in Yugoslavia has been basically affected by the break with the Cominform in 1948. Discussion will, therefore, center on the period since the break.

Credit developments

The outstanding feature of Yugoslav banking over the postwar period has been a continuous and rapid increase in short-term credit, from 42 billion dinars at the end of 1947 to 159 billion at the end of 1951. ^{1/} However, two distinct aspects of this expansion may be noted. The first is the rate of expansion of all credit. Here a notable slowing down of expansion occurred in 1949 and 1950 as compared with 1948, followed by a rapid growth in 1951. After an increase of 60 per cent in 1948, the rate of growth dropped to 28 per cent in 1949 and 10 per cent in 1950, rising again to 68 per cent in 1951.

The second feature of the credit expansion concerns the composition of the loans (Table 1). From the end of 1947 to the end of 1949, almost half of the increase in credit was due to loans to industry and agriculture. In 1950 and 1951, loans to industry increased only very slightly and agricultural loans actually declined. On the other hand, loans to trade, which accounted for just less than half of the increase in total loans in 1948 and 1949, accounted for 87 per cent of the increase in the following two years. Finally, during the first quarter of 1951, the expansion of loans to industry was resumed. Of an increase of 36 billion dinars, only 19 billion went to trade, and 10 billion to industry.

^{1/} Data in this paragraph and the next are from Indeks, and include figures on loans by the National Bank, which finances state enterprises and the larger cooperatives, and by the Communal Banks, which finance local enterprises of all kinds. Data on National Bank loans, as published by the IMF, are not broken down by sectors of the economy.

TABLE I

Yugoslav Short-term Credit Outstanding
by Sectors of the Economy
(Billions of dinars)

	<u>Total,</u> <u>December 31, 1951</u>	<u>Increase over</u> <u>December 31, 1949</u>	<u>Increase from December 31,</u> <u>1947 to December 31, 1949</u>
Total	159.2	73.0	44.1
Industry	27.6	1.6	13.7
Agriculture	7.1	- .7	6.2
Trade	107.4	63.4	21.9
Other	17.1	8.7	2.3

Source: Indeks

Loans to industry in Yugoslavia are primarily used for financing inventories. Under conditions of controlled wholesale prices, such as existed in Yugoslavia through 1951, there is likely to be a close relation between loans and output. Some indication of this correlation is shown in Table 2, despite the fact that the Yugoslav output index is subject to a number of technical defects. The sharp increase in loans in the first quarter of 1952 marks the first major divergence in trends between loans and output. It is not clear whether the change reflects price changes, in connection with the general economic reorganization that is currently taking place, or whether it reflects a change in credit conditions.

TABLE 2

Industrial Output and Short-term Credit
IV Quarter 1950 - III Quarter 1951
(1948 equals 100)

<u>Period</u>	<u>Industrial Output a/</u>	<u>Short-term Credit to Industry, end</u> <u>of period b/</u>
1950-IV Quarter	116	104
1951- I Quarter	111	113
1951-II Quarter	107	116
1951-III Quarter	109	106
1952- I Quarter	109 c/	178

a/ Economic Survey of Europe in 1951, Economic Commission for Europe, 1952

b/ Indeks

c/ Estimated from January - April data in Indeks, June 1952.

Loans to trade (i.e., mainly trade in consumer goods) appear to have been affected primarily by two factors: the level of inventories in the retail system and the level of prices. Analysis of this sector is complicated because of a multiplicity of retail prices and of changes in the relative quantities of goods sold under each price. An extremely rough indication of the relation of credits to trade and retail trade turnover is given in Table 3.

TABLE 3

Retail Trade Turnover and Short-term Credit to Trade, 1948-1952

	Retail Trade, Total, a/ Annual Rates (Bil. dinars) (1948=100)		Short-term credits to trade (Bil. dinars) (1948=100)		Ratio of credit to turnover (1948=100)
1948	87.4	100	27.8	b/ 100	100
1949	99.8	114	38.8	b/ 140	123
1950	111.3	127	48.1	b/ 173	136
1951 - I Quarter	206.0	236	80.1	c/ 288	122
1951 - II Quarter	219.2	251	97.2	c/ 350	139
1951 - III Quarter	284.8	326	111.0	c/ 399	122
1951 - IV Quarter	352.6	403	115.2	c/ 414	103
1952 - I Quarter	272.4	312	117.6	c/ 423	136

Source: Indeks

a/ Excluding free market trade.

b/ Figures for beginning and end of year, averaged. This procedure was used because quarterly data are available only beginning in 1951. Since the value of trade turnover was apparently increasing steadily during the period, the use of end-of-year data alone would tend to make the ratio of credit to turnover smaller for annual than quarterly data, other things being equal. The device used is a rough equivalent to "average credit outstanding at end of quarter", which would be more strictly comparable with the quarterly data for 1951-52.

c/ End of quarter.

According to communist banking theory, loans to trade should vary in direct proportion to the value of inventories. The amount of loans would thus be affected primarily by changes in wholesale prices and in the physical volume of inventories. The relation between the amount of these loans and the value of current retail transactions would, therefore, largely depend on the margin between wholesale and retail prices: an increase in margins tends to reduce the ratio of credit to turnover, and vice versa, since the turnover is valued at retail prices and the inventories are valued at wholesale prices.

According to the data in Table 3, credit rose more rapidly than trade turnover from 1948 to the middle of 1951; in the second half of 1951, trade rose more rapidly than credit, but in the first quarter of 1952 credit again expanded more rapidly than trade. Loans to trade thus showed a less close relation to current operations than loans to industry. It would be interesting to know whether the expansion of these loans was greater than planned; if this was the case, we could assume that the expansion of money supply in 1951 (which will be discussed later) was also greater than planned. Unfortunately, a complete analysis of the subject is not now possible but certain facts which may permit a more precise formulation of the problem are available.

First, wholesale prices were fixed by administrative action during most of 1951 and to some extent freed from controls in 1952 although it is still not clear to what extent all controls have been abandoned. No data on the actual levels of wholesale prices are available, but in the period covered by Table 3 wholesale prices could not have changed materially in response to market conditions until the first quarter of 1952. Retail prices, however, rose fairly steadily until the middle of 1951, the 1950 drought forcing food prices to very high levels in early 1951. The cost of living index rose from 100 in January 1951 to 105 in May, declined to 63 in December, and rose slightly to 66 in April 1952. These data indicate that trade margins -- i.e., the difference between wholesale and retail prices -- probably did rise until the middle of 1951, fall sharply in the second half of 1951, and perhaps rise slowly in the first quarter of 1952. On the basis of these data, it would be reasonable to expect that the ratio of credit to trade turnover would decline up to the middle of 1951, rise sharply in the second half of 1951, and then decline slightly in the first quarter of 1952. Actually, however, the movement was in the opposite direction.

Second, we know that the 1950 harvest was very poor and that the 1951 harvest was much better; it would thus be reasonable to expect, therefore, that food inventories were higher in 1951-52 than in 1950-51. Similarly, we know that the foreign aid program, which finances the imports of many industrial raw materials, did not get under way on a large scale until the middle of 1951; it would thus be reasonable to expect that inventories of raw materials as well as of industrial products tended to decline until the middle of 1951 and started to increase after that time. On the basis of the movement of both agricultural and industrial inventories, it would thus be reasonable to expect that the ratio of loans to trade turnover moved in the same direction declining in 1950-51 and rising in 1951-52. Actually, however, the movement was in the opposite direction, except for the rise in the first quarter of 1952.

The changes in the ratio between credits and trade turnover could thus not be explained by changes in price relations and in inventories. The explanation must therefore be found in the monetary sphere, especially in changes in the liquidity of Yugoslav enterprises. An increase in bank loans which is not accompanied by changes in the total value of inventories invariably leads, under the communist economic system, to changes in the liquid assets of enterprises, i.e., in the balances of the enterprises with the National Bank: current assets of enterprises in a communist economy consist almost exclusively of inventories and balances so that any change in current liabilities must be reflected in a corresponding change in either or both of these asset items.

We must, therefore, come to the conclusion that the increase in loans to trade between 1949 and 1951 -- which represented most of the increase in total loans during that period -- was in fact responsible for any (planned or unplanned) increase in the money supply that may have occurred in those years.

Bank loans to the Government also expanded during 1951. ^{1/} These loans were small until December 1951, varying only between 2 and 6 billion dinars. At that time, however, an increase of 15.6 billion dinars occurred, raising the level of these loans 12.4 billion above the level at the beginning of the year. This latter increase may be compared with an unexplained item of 13.4 billion dinars of budgetary revenue for the year 1951.

Changes in the money supply

This increase in bank credit might normally be expected to have led to an increase in the money supply. The extent to which it actually has done so is uncertain because of the problem of determining the nature of certain deposits of the National Bank. Yugoslav deposits are of two kinds: the "current accounts" of enterprises with the National Bank from which current payments are made; and the "other accounts", which also belong to enterprises, but which apparently are not available for ordinary use, being blocked to some extent at least. Moreover, the recent reorganization measures of the Yugoslav Government probably have involved a shifting of funds among the various accounts of the National Bank. Caution would appear necessary in the analysis of the change in the money supply.

^{1/} The short-term credit series in the Indeks includes loans to "state organs", but the amount of these is smaller than the loans to the government reported in the IMF statistics. It is believed that the IMF data also include credit other than short-term, and hence are the series more relevant to an analysis of fiscal policy than the Indeks data.

A narrow definition of money supply would include only the note circulation and the current accounts. This will be termed the "effective money supply." (See Table 4).

Note circulation rose steadily from the end of the war, reaching a peak of 47 billion in July 1950. It declined thereafter to a level of 37-39 billion where it remained throughout 1951. At the end of 1951, note circulation was 38.7 billion, or about the level prevailing at the end of 1948.

A stability of note circulation in 1951 was achieved despite a considerable increase in retail trade turnover during the year (Table 3) and increases in money wages at the end of the year. Yugoslav trade was characterized by a multiprice system, with rationed goods selling at relatively low prices and unrationed goods at high prices. In October 1951 rationing was abolished and prices unified, but certain categories of the population received "cash coupons" ^{1/} which enabled them to purchase goods at a discount. The new prices were more flexible than the old, and were intended to be sufficiently high to maintain the inflow of notes into the National Bank. Adequate data on wage rates are not available to indicate the relation between inflow and outflow of notes, but the available data though limited (Table 5), suggests that urban money incomes were held stable, with increases in retail sales during the summer and fall reflecting seasonal farm spending. The decline in the cost of living reflects mainly the good 1951 crop coming after the 1950 drought and the subsequent price rise.

Current accounts dropped from a level of 34 billion at the end of 1948 to about 21 billion in mid-1950. Since note circulation was simultaneously increasing during this period, it may be supposed that a portion of the decrease in deposits might be ascribed to an imbalance in the "cash plan", i.e. a failure to maintain inflow of

^{1/} The cash coupons are apparently excluded from note circulation data, although they are a form of money and are apparently treated as a liability of the National Bank. At the end of August 1951, there were 38.9 billion dinars of notes and 14.9 billion dinars of cash coupons outstanding. (See this Review, October 9, 1951, p. 14, note 4). The value of the coupons used in retail trade in September 1951 was 16.0 billion dinars; after averaging about 13 billion monthly in the last quarter of 1951, the value of coupons used in trade declined to about 7.6 billion dinars monthly in the first quarter of 1952. Since holders of the coupons would presumably use them in preference to notes where possible, an overhang of notes is more likely than an overhang of coupons. Therefore, it would appear not unreasonable to suppose that the value of cash coupons outstanding has varied in somewhat the same way as the value of coupons used in trade.

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Yugoslav Credit and Money
TABLE 4
Selected Items of the Balance Sheet of the Yugoslav National Bank, 1948-1952 a)
(in billion dinars)

	Dec. 31, 1948	Dec. 31, 1949	June 30, 1950	Dec. 31, 1950	Mar. 31, 1951	June 30, 1951	Sept. 30, 1951	Dec. 31, 1951	Estimated Dec. 31, Mar. 31 1952 h/
Assets									
Short-term loans, total b)	64.50	75.90	80.83	84.41	112.09	127.16	135.32	137.56	.167
Government debt	5.26	3.51	4.21	5.59	6.11	4.15	6.10	17.97	25
Total loans	69.76	79.41	85.04	90.00	118.20	131.31	141.42	155.53	192
Balancing item c)	31.83	27.89	25.29	13.83	14.35	12.78	- 12.33	- 18.09	- 42
Total reported assets	101.59	107.30	110.33	103.83	132.55	144.09	129.09	137.44	150
Liabilities									
Notes d)	39.23	45.10	44.99	40.27	37.00	37.38	40.01	38.70	40
Current accounts e)	33.91	21.51	20.96	23.56	27.01	32.10	28.12	32.67	57
Other deposits	10.28	24.38	22.65	28.12	43.21	59.67	54.14	59.23	50
Total money supply f)	83.42	90.90	88.60	82.95	107.22	129.15	122.27	129.60	147
Effective money supply g)	73.14	66.61	65.95	63.83	64.01	69.48	68.13	71.37	97
Government Accounts	18.17	16.31	21.73	21.88	25.33	14.94	6.82	6.84	3
Total reported liabilities	101.59	107.30	110.33	103.83	132.55	144.09	129.09	137.44	150

a) Except as noted, the data are from the IMF International Financial Statistics.

b) These data differ from the series in Indexes in that they exclude loans by communal banks.

c) Difference between reported liabilities and reported assets. Since these items do not represent the entire National Bank balance sheet, a decrease in this series may represent either a decline in unreported assets or an increase in unreported liabilities, or both.

d) These data differ from the series in Indexes in that they exclude coin in circulation.

e) This series is given separately in Indexes.

f) Notes plus total deposits.

g) Notes plus current accounts.

h) Loans to the Government and government deposits are for February 28. Other data are for March 31, as reported by Indexes, with an estimated conversion to the basis reported by the IMF.

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notes into current accounts (and hence into the National Bank) equal to the outflow of notes from the current accounts (and hence the Bank) in the form of wage payments. Conversely, beginning in the second half of 1950 the decrease in notes and increase in deposits might be ascribable to an increase in the total value of retail trade turnover, which in turn might be ascribable to the higher prices which were adopted at that time. Since, however, there was an increase in "other accounts" at the same time, the decrease in current accounts might simply be the result of an administrative transfer of funds, without economic significance.

The net effect of changes in notes in circulation and in current accounts was a decrease in the "effective money supply" from a level of 73.1 billion dinars at the end of 1948 to 63.8 billion at the end of 1950, and an 11 per cent increase, to a level of 71.4 billion during 1951. Apparently, therefore, an increase of 86 billion dinars in credits over the three-year period was accompanied by an actual net decrease of almost 2 billion dinars in the "effective money supply." However, in the first quarter of 1952 a rapid increase took place, bringing the "effective money supply" to about 97 billion dinars.

The difference between expansion of credit and expansion of the "effective money supply" is accounted for by changes in National Bank liabilities which are not part of the "effective money supply." Thus, during 1949 and 1950, credit (including loans to the Government) increased 20.2 billion, while government accounts and "other deposits" increased 21.6 billion. In 1951, credit rose 65.5 billion and the "effective money supply" rose 7.5 billion, while these two liabilities increased only 15.8 billion. It is not possible to determine how the remaining increase of 42.2 billion dinars was treated, however, Yugoslav trade statistics reports foreign aid of 11.8 billion dinars and counterpart funds may account for a portion of the unexplained difference. 1/

1/ A release of 1.9 billion dinars of U. S. counterpart accumulated in 1951 was approved in June 1952. This will be smaller than total accumulations during the year, since it excludes 1) aid under the emergency food relief program, which according to Yugoslav trade statistics totalled 4.3 billion dinars in 1951; 2) aid by the U. K. and France under the Tripartite Aid Program, amounting to 700 million dinars; 3) goods actually imported under U. S. aid programs during 1951 but not covered in the U. S. release because of delays in processing.

TABLE 5

Estimated Money Wage Payments and Cash Retail Outlays,
1951 and January 1952

	Employment (Millions)	Monthly money wages a) (Dinars)	Estimated Total Money Wages (Billions)	Retail Sales for Cash b) of dinars)	Cost of Living Index a)
1951 January	1.62	4,121	6.7	7.8	100
April	1.68	4,121	6.9	7.9	105
July	1.64	4,121	6.8	8.9	84
October	1.65	4,121	6.8	13.0	71
December	1.61	7,741	12.5	15.9	63
1952 January	1.61 c)	7,741	12.5	11.4	65

Source: Indeks

- a) These data relate to money wages, including children's allowances, for a worker's family of four, and the cost of living of such a family. The method of calculation of the index is not clear, and for that reason there is considerable doubt as to the validity of calculations based on their use. Moreover, data so far published do not go back of 1951, when the price rise was checked. The cost of living index apparently takes into account changes in cash coupons issued.
- b) The series differs from that in Table 3, in that it excludes payments by check and the value of cash coupons used in trade.
- c) Assumed equal to December. Actual figure not yet published.

The "total money supply", which may be defined as notes plus all non-government deposits, started to increase sooner and more rapidly than did the "effective money supply". An increase of 9 per cent during 1949 was approximately cancelled by a decrease during 1950; but a new increase of over 50 per cent occurred during 1951, whereas the "effective money supply" did not regain 1948 levels until the end of 1951. On the other hand, the "total money supply" increased less rapidly during the first quarter of 1952 than did the "effective money supply", as a result of a decrease in "other deposits".

The "effective" and "total" money supply have been considered separately, because an evaluation of the success of Yugoslav financial and monetary policy may depend upon a decision as to which of the two is the most useful index for describing the function of money in Yugoslavia. Communist banking practice ^{1/} appears to have two primary objectives: 1) to hold down the note circulation so as to prevent

^{1/} See the Federal Reserve Bulletin, April 1952, and this Review, April 29, 1952 for analyses of Soviet banking practice in this connection.

either an upward pressure on prices, or (if prices are fixed) unspendable cash holdings by individuals; and 2) to prevent increases in deposits so as to prevent upward pressure on wholesale prices or (if these are fixed) undue hoarding of materials by enterprises.

An upward pressure on wholesale prices, which might occur as a result of unplanned increases in the money supply, would increase the cost of the Yugoslav investment and armaments program, and thus tend further to unbalance the state budget. It would also aggravate Yugoslavia's international position by decreasing the demand for Yugoslav exports in the world market and increasing Yugoslav demand for foreign goods. This fact, unique in communist economics, is the result of a series of measures, including the devaluation of the dinar on January 1, 1952 and the decontrol of foreign exchange transactions on July 1, 1952, through which the Yugoslav Government has sought to bring Yugoslav internal prices into line with world prices, and to permit Yugoslav foreign trade to be controlled in large part by market forces.

If, in fact, these are the objectives which the Yugoslav Government has sought to attain, it would appear that in one of them, control over note circulation, they have been quite successful. In the case of control over the spending power of enterprises (as reflected in deposits), the case is not nearly so clear. Not only is there the difficulty of deciding whether all deposits or only the current accounts are to be considered as part of the money supply, but there is also the difficulty of correlating changes in the volume of credit and of deposits with the reorganization of the wholesale price structure. An earlier paper ^{1/} has indicated that market forces and the price mechanism are to play a much more important part than formerly in governing Yugoslav economic developments. Since the older system tended to freeze wholesale prices, and to use subsidies in many cases, a change to a price mechanism will involve an increase in many wholesale prices. In turn, the volume of bank credits needed to finance any given volume of inventory and the size of a deposit representing any number of days' transactions will have to increase. In other words, if wholesale prices rise and deposits do not, a real decline in the liquidity of enterprises will have taken place. In these circumstances, some increase in deposits is to be expected as prices are decontrolled. Since no data are on hand concerning wholesale price movements, it is not possible to draw any firm conclusions as to whether the increase in deposits (total deposits, or current accounts) has exceeded the price increase (indicating an increase in the liquidity of enterprises). However, it may be relevant to note that during the first quarter of 1952 industrial loans increased 67 per cent (19 billion dinars), while current accounts rose 74 per cent (14 billion dinars). The data are thus consistent either with a slight decrease in the physical volume of credit-financed inventories, or a slight increase in the liquidity

^{1/} This Review, October 9, 1951.

of enterprises (depending on whether we assume that wholesale prices increased more or less than 67).

Summary and conclusions

The volume of credit in Yugoslavia has expanded steadily since the end of the war; the expansion slowed down markedly prior to 1951 but has lately accelerated. In the period since 1949, most of the credit expansion has been in loans to trade. In the first quarter of 1952, however, loans to industry, which varied roughly in proportion to industrial output from 1948 to 1951, increased very sharply. In terms of the traditional objective of communist credit policies (the control over the cash and inventory of producing and trading enterprises) industrial credit policy appears to have been more successful through the end of 1951 than trade credit policy although the absence of data on inventories and prices makes it impossible to be very categorical on this point.

During 1949 and 1950, the "effective" money supply, as measured by notes in circulation and current accounts, showed a net decline. In 1951, an increase brought it almost back to the level prevailing at the end of 1948. In the first quarter of 1952, an even more rapid increase occurred; this increase was almost entirely due to an increase in current accounts. If we assume that the increase reflected merely an administrative change in the price structure, aimed at raising wholesale prices by eliminating subsidies, then we could conclude that the rise in deposits has not been inflationary, in the sense of raising purchasing power of enterprises relative to goods available. In support of this contention, it may be shown that loans to industry rose in about the same ratio; this rise is consistent with the hypothesis that inventories remained constant in physical terms, with prices increasing for administrative reasons. It is not possible to make such an assertion with any confidence, however, because of the lack of data on inventories and wholesale prices.

It is apparent from the available data that the recent increases in the money supply have exclusively affected the volume of deposits. Note circulation reached a peak in mid-1950, and has remained stable since the beginning of 1951. The stability of note circulation, despite considerable increases in prices in the winter of 1950-51 and considerable decreases since then, is in part accounted for by the existence of "cash coupons" used as a subsidiary form of money replacing ration cards, but in part it also reflects the ability of a communist economy to isolate the consumer sector from the remainder of the economy.

If the definition of the money supply used here be correct, it is possible to conclude that during 1949 and 1950 the authorities were able to prevent increased loans from increasing the money supply by blocking enterprises' funds, and by increasing the Government's account. More recently, however, the Government has apparently been

operating at a budgetary cash deficit and borrowing from the National Bank; and the change in the presumably blocked "other accounts" has been much less than the expansion of credit. In part, the accumulation of counterpart funds may explain the difference but a complete balance sheet of the National Bank is not available, and it is not possible to determine how the Yugoslavs have managed to increase the assets of the National Bank without increasing its admitted liabilities by the same amount.

The meaning of the considerable increase in the money supply that occurred in recent months has not yet become clear. Yugoslavia is undergoing a fundamental change in its economy which involves a transformation from a centrally controlled price system to a system in which market factors are expected to play a large role. It is not yet possible to determine whether the increase in the money supply indicates an unplanned rise in money incomes that will lead to unplanned increases in prices or whether it reflects merely the changed organizational structure of the Yugoslav economy.

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