

Mr. Hoover

L. 5. 2.

RFD. 213

Board of Governors of the Federal Reserve System

Division of International Finance

REVIEW OF FOREIGN DEVELOPMENTS

May 19, 1953

Yugoslav Money and Credit 1951-1952

Edward Ames

15 pages

NOT FOR PUBLICATION

This Review is intended primarily for internal circulation and should in no case be cited or quoted. It consists of personal and informal contributions by the author, which in many cases represent tentative analyses of the subject considered.

May 19, 1953

YUGOSLAV MONEY AND CREDIT 1951-1952

Edward Ames

Recent Yugoslav economic developments may be explained in a large part in terms of the alternation of good and bad harvests. The good harvest of 1949 was followed by the crop failure of 1950; and the good harvest of 1951 by the crop failure of 1952. The discussion in this paper concentrates on credit and monetary developments in 1951-1952, starting with the middle of the period affected by the crop failure of 1950, and ending with the middle of the period affected by the crop failure of 1952. Such a treatment has the virtue of ending the analysis at a moment when an important element of the Yugoslav economy -- agriculture and the food supply -- was in very much the same condition as at the beginning of the period, and invites comparisons of the internal state of the Yugoslav economy under similar circumstances at two separate points in time. Since there have been important reorganizations of the Yugoslav economy and important reconsiderations of economic policy in the interim, this comparison will make possible a partial evaluation of the successes or failures of Yugoslav credit and monetary policy in the past two years.

During 1951 and 1952, the effective Yugoslav money supply showed a tendency to increase. Most of the increase occurred during the early part of 1952, when the good 1951 harvest favored economic conditions; and all of the increase took place in the current accounts of enterprises, rather than in currency. The stability of the currency in circulation occurred despite considerable increases in money income and especially money expenditures by individuals and probably meant a considerable decrease in involuntary holdings of currency by the population. Loans to trade increased less rapidly than trade turnover. Loans to industry increased more rapidly than industrial output, reflecting increases in wholesale prices in industry. In meeting the 1952 drought, it would appear that the authorities have attempted (1) to stabilize money wages and the currency outstanding, (2) to prevent increases in deposits by reducing short-term credit and by blocking a part of the money receipts of enterprises. The authorities, however, seem to have been reluctant to reduce individual purchasing power. The maintenance of cash assets which are only partly frozen may also present some danger to economic stability in 1953.

The Yugoslav money supply

Table 1 shows the "effective" and "total" Yugoslav money supply from the end of 1950 through the end of 1952. ^{1/} There are two categories of National Bank deposits, only one of which the "current accounts" is at the free disposal of the enterprises which hold them. The "effective" money supply consists of notes, coin, and so-called

^{1/} Except where indicated, all data used in this paper are from the Yugoslav statistical monthly Indeks.

cash coupons (which are described below), which represent the currency held by individuals, and the "current accounts". The "total" money supply includes, in addition, other sight deposits in the National Bank, the use of which appears to be more or less subject to administrative control by the Government, and savings deposits, which are small relative to the other components of the money supply. From the point of view of economic analysis, the "effective" money supply appears to be a more useful indicator of the result of fiscal and bank operations upon the economy than the "total" money supply since it includes only those types of money which can be used without direct authorization.

Table 1

Effective and Total Money Supply in Yugoslavia, 1951-1952
(In billions of dinars)

Date	Notes, coin, and cash coupons	Current accounts	Effective money supply	Total money supply
December 31, 1950	64.0	23.6	87.5	118.1
March 31, 1951	49.5	27.0	76.5	122.2
June 30, 1951	45.9	32.1	77.9	140.0
September 30, 1951	56.8	28.1	84.9	141.4
December 31, 1951	47.8	32.7	80.4	142.2
March 31, 1952	49.1	57.5	106.6	159.6
June 30, 1952	48.7	73.0	121.6	170.7
September 30, 1952	54.5	70.0	124.6	179.2
December 31, 1952	50.0	67.7	117.6	145.5

The item "notes, coin and cash coupons" reflects the existence of a multiple price system in consumer markets during this period. Prior to September 1951, there were three sets of retail prices. The lowest set pertained to goods sold on ration and the highest to goods sold off ration at state stores. In addition, a third set of prices prevailed for consumers holding "cash coupons"; these were entitled to purchase unrationed goods at 65 and 80 per cent discount up to the limit of the value of the coupons which they held. After September 1951, rationing was abolished but the system of cash coupons was retained until the end of 1952. The National Bank seems not to have included the value of ration cards as a part of the money supply but it did treat the cash coupons as a part of the money supply, and as a part of its liabilities.

Factors affecting the effective money supply

A partial quantification of the factors affecting the effective money supply is given in Table 2. The largest increases in the money supply took place in the first half of 1952, that is, during the period of the good 1951 harvest. During the remainder of the two year period,

the money supply showed a downward tendency on balance, probably indicating the attempt of the authorities to restrict purchasing power in the face of poor harvests.

The principal factor affecting the effective money supply for most of 1951 and 1952 was the volume of short-term credit, which tended to increase or decrease more than the total increase or decrease in the effective money supply. Treasury operations tended, on the whole, to increase the money supply. The largest increase from this source, which occurred in the first quarter of 1952, was offset by a decrease in the following quarter, but on balance Treasury operations tended to increase the money supply throughout 1952. No clear movement in "time and other deposits" is apparent. 1/

Table 2

Factors Affecting the Yugoslav Effective Money Supply, 1951-1952, by Quarters
(In billions of dinars)

Effect on the Effective Money Supply of:

	Change in the effective money supply <u>a/</u>	Changes in short-term credit to economy <u>b/</u>	Changes in time and other deposits	Budget operations <u>c/</u>	Discrepancy <u>d/</u>
1951 - I Quarter	-11.0	31.9	-15.1	-2.9	-24.9
II Quarter	1.4	18.5	-16.4	9.7	-10.4
III Quarter	7.0	9.9	5.6	9.5	-18.0
IV Quarter	-4.5	-2.4	-5.3	16.3	-13.1
1952 - I Quarter	26.2	37.2	8.8	25.9	-45.7
II Quarter	15.0	40.1	3.9	-27.7	-1.3
III Quarter	3.0	-2.8 <u>e/</u>	-5.5	-2.8	14.1
IV Quarter	-6.9	-41.4	26.8	11.8 <u>f/</u>	4.1

a/ Changes in notes, coin and cash coupons, and in current accounts.

b/ Changes in short-term credit, excluding loans to state organs and cultural organizations.

c/ Changes in government borrowings from the National Bank (as reported by the IMF), plus short-term credit to state organs and cultural organization, minus government deposits in the National Bank (as reported by the IMF)

d/ Column 1 minus columns 2-4.

e/ After adjustment for the change in basis, discussed in text and Table 3.

f/ October and November only.

1/ Time deposits were small, showing a slow tendency to increase during the entire period, but as the increase was only 1.5 billion dinars over the two years, little importance can be assigned to changes in this element.

The large unexplained residual item can be in part explained by the impact of foreign trade upon the domestic money supply. An import surplus would normally lead either to a decrease in National Bank holdings of foreign exchange or to an increase in the deposits of the foreign trade and exchange authorities in the Bank (and counterpart) as the imports were sold on the domestic markets. Both of these effects tend to reduce the effective money supply. The total discrepancy for the year 1951 of 66.4 billion dinars, converted into dollars at a rate of 300:1 equals \$221 million; this sum is almost exactly equal to compensatory official financing ^{1/} of \$228 million. The dinar during 1951 had an exchange rate of 50:1, but at the beginning of 1952 it was devalued to the rate given above.

The purpose of the devaluation was stated to be the equalization of internal prices and world prices. Although there is no clear indication that all of the indicated discrepancy was due to the internal impact of international transactions; and although there is no clear indication that the exchange rate of 300:1 actually had the equalization function which it was supposed to have, these results suggest that the explanation of the discrepancy may lie in the area suggested.

Data on the Yugoslav balance of payments for 1952 are not yet available, and it is therefore impossible to determine whether the close relation between the discrepancy and compensatory official financing indicated by the 1951 data is coincidence. During the first half of 1952, Yugoslav exports exceeded imports (net of foreign aid) by 7.2 billion dinars, compared to a deficit of 17 billion in 1951 and one of 12.7 billion in the second half of 1952. It would be reasonable to expect that foreign trade operations would have tended to increase the money supply during the first half of the year and to decrease it during the second; while the discrepancy is in the opposite direction for the two periods. A lag in the disposition of import proceeds, or in receipt of payments by exporters could explain this discrepancy. For the present, however, it must be concluded that the results, while presumably reflecting the foreign deficit, are inconclusive. If, however, one could conclude that the generally deflationary influence of the "discrepancy" reflected the influence of foreign trade operations upon the economy, one might also conclude that the credit expansion during the period prior to mid-1952 was in part deliberately designed to offset this deflationary tendency.

Analysis of Yugoslav credit policy

The National Bank is not only a central bank and bank of issue but also the only commercial bank in Yugoslavia. In addition to controlling the money supply and the amount of commercial bank reserves, its operations, therefore, determine directly the size of current assets, including inventories as well as liquid assets, in the hands of Yugoslav

^{1/} As reported in the balance of payments data published by the International Monetary Fund.

enterprises. Until the middle of 1952, this control was not complete, for enterprises were permitted to invest a portion of their retained profits in inventories, and received funds from the budget for this purpose. However, in July the indebtedness of enterprises was written up to the level of their current assets, and the enterprises' former "own resources" were apparently frozen. In other words, the total short-term credit outstanding since June 30, 1952 may be taken as an approximation of the total current assets of Yugoslav enterprises, but that amount outstanding before that period may not be so taken.

The change in credit occurred only in the middle of 1952, and the statistical information on short-term credit is thus not comparable over the entire period 1951-1952. No data have been published on the amount by which bank loans were actually written up, and an adjustment must be made, on a rough basis, to account for the change. In this paper, the write-up of indebtedness has in all cases been taken to be equal to the increase in short-term credit between the end of June 1952 (the last month before the shift) and the end of July. Since there were undoubtedly some changes in current assets during the month of July, this procedure leads to some inexactness, but the error is probably not very great, since no very great changes are indicated on the basis of other available data.

The changes in short-term loans to the various sectors of the economy in 1952 and in previous years is given in Table 3. The correction indicated takes into account the absorption of enterprises' own working capital in July 1952. The corrections are of some interest to students of communist economics, for they indicate that the proportion of current assets covered by bank credit prior to July 1952 in Yugoslavia was not dissimilar to that of the USSR ^{1/}, where in the immediate postwar period, 70-90 per cent of current assets of trading organizations (compared to about 85 per cent in Yugoslavia), and where in 1951 about half of all current assets (as in Yugoslavia) were covered by credit.

Table 3

Yugoslav Short-Term Credit Outstanding
by Sectors of the Economy
(In billions of dinars)

As reported	<u>Total, December 31, 1952</u>		1952	<u>Increases during:</u>			
	<u>Correction a/</u>	<u>Comparable basis b/</u>		1951	1950	1947-9	
Total	438.0	220.0	218.0	58.8	64.3	8.7	44.1
Industry	218.0	172.1	45.9	18.3	.7	.9	13.7
Agriculture	17.9	6.2	11.7	4.6	-2.2	1.5	6.2
Trade	163.8	25.8	138.0	30.6	56.3	7.1	21.9
Other	38.3	15.9	22.4	5.3	9.5	-.8	2.3

a/ The increase between June 30 and July 31, 1952, which, as indicated in the text, is assumed to result solely from the write-up of indebtedness to the National Bank.

b/ This column is an estimate of what short-term credit would have been at the end of 1952 if the enterprises had retained their own working capital.

^{1/} See "Current Assets and Liabilities of Soviet Enterprises", this REVIEW, April 20, 1952.

The increase in Yugoslav credit in 1952, while less than in 1951, was very much greater than in previous years. In 1950 and 1951, however, almost all of the increases were in loans to trade, while in 1952 only about half of the increase can be accounted for in this way. On the other hand, loans to industry, which had been virtually stable in 1950 and 1951, accounted for almost one-third of the total increase in 1952. Since most of the increase in credit occurred in these two sectors, discussion will concentrate on them.

Loans to trade, which accounted for over 80 per cent of the increase in short-term credit in 1950 and 1951, and about half of the total increase in 1952, have increased less rapidly than total trade turnover, as is indicated in Table 4. During each of the last three quarters of 1952, moreover, the ratio of credit to trade was lower than in the corresponding period of 1951.

Table 4
Short-Term Credit to Trade in
Relation to Trade Turnover, 1950-2

	Average monthly retail trade turnover (In billions of dinars)	Adjusted short-term credit trade a/ (In billions of dinars)	<u>Credit, per dinar of Trade</u> in dinars	<u>Index</u> 1950 = 100
1950	9.3	48.1	5.2	100
1951 - I Quarter	17.2	72.9	4.2	82
II Quarter	18.2	92.1	5.0	97
III Quarter	23.7	106.2	4.5	86
IV Quarter	29.4	115.3	3.9	76
1952 - I Quarter	22.9	115.2	5.0	97
II Quarter	27.4	120.4	4.4	85
III Quarter	28.7	110.1	3.8	74
IV Quarter	34.1	132.2	3.9	75

a/ For 1950, average of end-of-quarter data. For 1951-2, average of end-of-month data. For III and IV quarter, 1952, corrected to a comparable basis as indicated in the text and Table 3.

The fact that loans increased less rapidly than turnover would be explainable either by a decrease in inventories relative to trade, or by an increase in the margin between wholesale and retail prices. The former explanation seems more satisfactory, since retail prices in general were lower in 1952 than in 1951, whereas, as will be indicated below, there is evidence that wholesale prices have risen.

The retail margin, therefore, should have declined, rather than risen in 1952 compared to 1951. On the basis of these data, it could be concluded that the evidence does not point to an increase in credit because the National Bank was permitting the trade system to increase its inventories relative to trade. It is impossible, of course, to determine whether the level of inventories is still excessive in relation to trade turnover, but the data suggest that in 1950 they may have been, since decreases ranging up to 25 per cent have taken place since that time.

Loans to industry show rather a different pattern, in relation to industrial output. Table 5 indicates that during 1951 a 9 - point increase in the ratio of credit to output during the first two quarters was largely eliminated by the end of the year. However, during 1952, very sharp increases occurred, and despite a considerable drop in the last quarter, the ratio was still 66 points above the level of the fourth quarter of 1951.

Table 5

Short-Term Credit to Industry, in
Relation to Industrial Output, 1950-2
(1951 average equals 100)

	Industrial output a/	Adjusted short-term credit to industry b/ In billions of dinars	Index	Ratio of credit to output
1950 - IV Quarter	108	26.9	94	87
1951 - I Quarter	94	27.9	97	103
II Quarter	100	30.5	106	106
III Quarter	97	28.5	99	102
IV Quarter	109	27.8	97	89
1952 - I Quarter	90	37.5	131	145
II Quarter	100	61.8	216	216
III Quarter	99	72.4	253	255
IV Quarter	109	48.5	169	155

a/ The figure for the fourth Quarter of 1950 is based on data in the Economic Survey of Europe in 1951, Economic Commission for Europe 1952. Other data are from Indeks.

b/ For the fourth quarter of 1950, credit on December 31, 1950. For other periods, and average of end-of-month data. For III and IV quarters of 1952, corrected to a comparable basis as indicated in the text and Table 3.

The fact that loans increased much more rapidly than output in 1952 could in part be explained by the introduction of new

economic methods in 1952, which eliminated the subsidization of industry from the state budget, and hence presumably involved considerable increases in wholesale prices. It could in part be explained by the devaluation of the dinar at the beginning of the year, which would have in theory raised the value of inventories of imported goods to 6 times their former level. ^{1/} However, it is quite likely that a part of the increase in credit during the first three quarters of 1952 reflected a) increased volume of inventories of imported goods, reflecting the improvement in Yugoslav external payments, and b) increased holdings of unprocessed and semi-processed agricultural goods. Both of these factors would reflect the good harvest of 1951.

In any case, there is more evidence to support the hypothesis of some inflationary credit expansion in the case of industry than there is for a similar hypothesis applied to trade.

The decline in involuntary currency holdings

In an economy where prices and production of consumer goods are fixed by non-market forces, an increase in money income or a decrease in consumer goods production will lead to the formation of unspendable cash holdings by individuals. The 1950 drought was the culmination of a persistent tendency toward excess consumer purchasing power in Yugoslavia. The elimination of such a currency overhang may call for increases in retail prices, or decreases in money wages; in extreme cases communist countries have had currency conversions, which wipe out cash holdings and lead to general reductions in money wages and price levels. The Yugoslav government, however, has not found this last type of measure necessary.

Table 1 indicated that although the effective money supply rose from 88 to 118 billion dinars during 1951 and 1952, there was a net decrease of 14 billion dinars in currency (notes, coin and cash coupons) over this period. This stability was achieved despite an almost fourfold increase in retail trade turnover, as indicated in Table 6. As a result, the volume of currency, which had been over 5 times the monthly trade turnover of 1950, was only the equivalent of 1.5 months' turnover by the end of 1952. Such a decrease is not explainable in terms of the holdings of currency by enterprises, since these have always been required to deposit cash receipts with the National Bank, but must be explained in terms of consumer spending and cash holdings.

^{1/} In practice the increase may well have been less, since under the earlier system of foreign trade practices, the Ministry of Foreign Trade resold imported goods to domestic enterprises at prices which bore no necessary relation to their cost in foreign exchange, converted to dinars at the official rate of exchange.

Table 6

Currency Outstanding, in Relation
to Retail Trade, 1950-1952

	Average monthly retail trade turnover (In billions of dinars)	Notes, coin and cash coupons Out- standing	
		In billions of dinars <u>a/</u>	In per cent of monthly retail turnover
1950	9.3	49.5	532
1951 - I Quarter	17.2	54.5	317
II Quarter	18.3	47.0	257
III Quarter	23.7	51.5	217
IV Quarter	29.4	52.0	177
1952 - I Quarter	22.9	49.9	214
II Quarter	27.4	48.6	177
III Quarter	28.7	51.8	180
IV Quarter	34.1	52.6	154

a/ For 1950, the average of notes and coin outstanding at the end of quarters plus one-quarter of the cash coupons outstanding at the end of the year (earlier data on cash coupons outstanding not being available). For 1951-2, averages of end-of-month data.

The stability of currency holdings, given increases in retail trade turnover means either that incomes and prices were altered in such a way that the amount of currency which individuals wished to hold remained constant despite considerable increases in money spendings; or that incomes, prices and the availability of goods were varied in such a way as gradually to decrease involuntary currency holdings. For reasons which are explained below, the latter explanation appears to be more satisfactory.

Table 7 gives Yugoslav indices for nominal income and cost of living of working-class families for the period 1949-1952. These indices suggest that the 1950 drought was accompanied by a drastic increase in both prices and money wages. 1/ Only annual data are available for 1950 so that the increases, which must have occurred in the fourth quarter, are not adequately reflected in the index.

1/ The indices seem to contain numerous technical deficiencies which limit the extent to which they can be used for analytical purposes. The cost of living index, for example, is based on a budget which exceeds by about one-third the "nominal money income" of the standard family it also is based upon consumption patterns which are not necessarily those of Yugoslav working-class families, being based upon UN statistical standards for a minimum standard of living.

Table 7

Some Indices of Consumer,
Income and, Expenditures, 1949-1952

	<u>Working class family of four</u>			Average monthly retail trade, adjusted for changes in the cost of living. (1949 = 84) <u>b/</u>
	<u>Nominal income</u>	<u>Cost of living</u>	<u>Real wages <u>a/</u></u>	
		(1939 = 100)		
1949	371	441	84	84
1950	385	585	66	71
1951 - I Quarter	1716	1372	125	56
II Quarter	1763	1396	126	58
III Quarter	1464	1053	139	100
IV Quarter	1338	958	140	137
Year	1574	1183	133	83
1952 - I Quarter	1338	887	151	115
II Quarter	1354	923	147	132
III Quarter	1401	899	156	142
IV Quarter	1432	911	157	167
Year	1385	891	153	142

a/ Nominal income divided by the cost of living.

b/ The peculiar choice of base is designed to reduce this series to a scale comparable to that of "real wages". No comparison with prewar is intended.

It is also clear that the increase in the cost of living was not sufficient to reduce purchasing power to the availability of supplies. This is shown by a comparison of the Yugoslav index of "real wages", which is simply nominal income divided by the cost of living, with an extremely rough computation of the volume of goods sold through the retail network. 1/ Thus "real wages" in the first quarter of 1951 were up 41 points from 1949, while the indicated volume of retail sales was down 28 points. In other words, despite an increase in real purchasing power of almost 50 per cent, actual purchases declined by about one-third. It is difficult to believe that the discrepancy between these two figures can be explained by higher income taxes (which seem to have been constant during the period) or voluntary savings

1/ It is impossible to reduce this index to a prewar base, to obtain an estimate of the 1949 involuntary currency holdings, since there are no published prewar retail trade data. Likewise, the retail price index begins in 1951.

(since savings deposits have been small throughout the period). A more likely explanation is that there was extensive involuntary holding of currency during the period of the 1950 drought.

During the process of recovery from the effects of the 1950 drought, the authorities could have attempted a currency conversion of the type used in Rumania and Bulgaria in 1952, where cash holdings, retail prices and money wages would be cut by substantial fractions. Instead, the Yugoslav authorities appear to have concentrated on a gradual reduction of money wages and retail prices, and an increase in the volume of retail trade to a level where it could absorb the unwanted currency held by the population. Wage controls appear to have reduced money wages by 19 per cent from the peak in the second quarter of 1951; the retail price reductions amounted to about one-third. By the last quarter of 1952, in fact, the indicated volume of retail trade was slightly above the index of "real wages", suggesting that the currency overhang may have been reduced to the pre-1950 level.

Although these data may perhaps be accepted as indications of the decline in involuntary cash holdings, they are probably not good indicators of changes in the volume of consumption. It is difficult, in particular, to account for the large increase in the volume of retail trade. Thus, there has been no decline in inventories which would explain increased consumption at a time when consumer goods output was declining. 1/ Industrial consumer goods production was lower in 1951 than in 1950, and lower in 1952 than in 1951. 2/ Output of the food industry increased by one-third in 1951, to a level 21 per cent above 1949, but dropped again sharply in 1952 as a result of the second drought. Finally, it is not possible to account for the increases by increased imports of consumer goods. The total increase in this category cannot have exceeded about \$100 million, or about \$6.00 per year per capita over the Yugoslav population. It is difficult to consider this increase as representing a more than 100 per cent increase in total per capita consumption from 1950 to the end of 1952.

With all the due cautions suggested by the foregoing discussion of the volume of retail trade, it is possible to conclude that considerable progress was made in reducing involuntary holding of currency during 1951 and 1952. The reduction did not involve any actual

1/ Credit to trade in the last quarter of 1952 averaged 157.7 billion dinars, or 4.6 months' retail turnover. (It will be recalled that since July 1952, total credit is roughly equal to total current assets.) Assuming that from 1950 to July 1952 credit was a constant percentage of total current assets in trade, these would have been equal to 6.1 months' turnover in 1950, which is one-third greater. However, the indicated volume of trade in the last quarter of 1952 was 235 per cent of 1950. Even assuming that in this index exaggerates by 200 points the actual increase in volume, there would have been no decrease in the actual volume of inventories.

2/ The decline in 1952 was 14 per cent for all consumer goods. An index for 1951 is not available, but textile output declined 6 per cent, and leather and shoe output declined about 5 per cent from 1950 levels.

decrease in currency holdings below the level prevailing at the end of March 1952, but rather involved an increase in money incomes and particularly trade turnover to a point where the existing currency in circulation was much closer to the requirements of the population for current transactions. In meeting the situation caused by the 1952 drought, the authorities permitted only a small rise in the index of nominal income in the fourth quarter of 1952, rather than the drastic increase in money wages occurring at the time of the 1950 drought.

It may be argued that the increase in the "real wages" index in the second half of 1952, which shows increased real purchasing power at a time when the drought reduced availability of goods, is a dangerous sign. The Yugoslav authorities seem to have been aware of the dangers of increasing wage payments. Kidric, head of the Economic Council, warned against a tendency toward higher wages in late October 1952, 1/ as did another member of the Council at the November congress of the Yugoslav Communist Party. 2/ In fact, as nearly as can be determined, only slight increases were permitted. In these circumstances, the necessary decreases in consumption would have to be achieved either through involuntary currency holdings or increases in retail prices. The Yugoslav Government felt politically committed to avoiding price increases, but in October permitted a doubling of rents, on the grounds that these were still only 68 per cent of the 1939 level, although the general cost of living index was 900 per cent of prewar. Food prices, however, after increasing seasonally during the first six months of 1952, declined by about 10 per cent by the end of the year, which would hardly be consistent with the necessity for restricting consumption as a result of the bad harvest of 1952. 3/ It is therefore possible that during the first few months of 1953 there may have been involuntary holding of currency (as in 1950 and early 1951), or a decline in inventories.

The liquidity of enterprises in the second half of 1952

During the last half of 1952, retail trade increased, while there was a tendency for inventories to decline. In these circumstances, it might be expected that the deposits of enterprises would gain from the retirement of notes from circulation, and that the relation of cash assets to total current assets would increase. In fact, credit controls seem to have prevented such an increase in the liquidity of enterprises.

It has been indicated that in July 1952, indebtedness of enterprises to the National Bank was written up to the level of the enterprises' current assets. This change makes it possible to estimate

1/ Politika, October 24, 1952

2/ Speech by Karabegovic, November 4, 1952

3/ Not until March 1953 was the price of bread raised. The effect of this increase cannot yet be measured.

(in Table 8) the principal components of the current assets of enterprises for the period June-December 1952. Such an estimate is of interest in analyzing Yugoslav credit policy during the period when the effects of the 1952 drought began to be felt.

Table 8

Estimated Current Assets of Yugoslav Enterprises, June-December 1952.
(In billions of dinars)

Value at end of	Total <u>a/</u>	Current accounts	Other cash assets <u>b/</u>	Inventories & other <u>c/</u>	Inventories & other (Per cent of current assets)	Current accounts
June	448.1	73.0	45.9	329.5	73.5	16.3
July	446.9	73.7	45.7	327.5	73.3	16.5
August	441.2	73.1	50.8	317.3	71.9	16.6
September	442.5	70.1	51.2	321.2	72.5	15.8
October	428.8	69.5	44.7	314.6	73.3	16.2
November	427.3	69.1	48.2	310.0	72.5	16.2
December	408.9	67.7	24.0	317.2	77.5	16.6

a/ For July-December these equal total short-term credit of National Bank excluding loans to cultural and state organs. For June it equals this total plus the 220.0 billion assumed to represent the own resources of enterprises as of that date.

b/ "Other deposits" in the National Bank.

c/ These presumably include drafts in the process of collection and any receivables held by enterprises.

It would appear that the authorities may have had two objectives in their controls over the enterprises' current assets during this period. Since the value of retail trade turnover was increasing (Table 6), the receipts of enterprises from the population were increasing; since wage controls, which affect payments to the population by enterprises, were being maintained, there would therefore be a tendency for the total money supply to flow increasingly into the hands of enterprises, increasing their liquidity, and therefore their power to bid up the prices of increasingly scarce goods.

Similarly, the drought might normally be expected to lead to a decrease in the inventories of enterprises (unless this decrease were offset by increased inventories of imported goods). Since these inventories might normally be sold, i.e., converted into cash, a decrease in inventories might also be expected to lead to an increase in cash assets as a percentage of the total.

In fact, during the period in question, the authorities appear to have kept the current accounts of enterprises equal to a

fairly fixed proportion of total current assets. The variation is only between the limits of 15.8 and 16.6 per cent of the total. In part, this stability was achieved by a reduction in the total current assets (which are presumably equal to total short-term credit), since a decrease of 9 per cent in this total took place during the period. In part, however, this stability reflects a manipulation of the "other cash assets" ("other deposits") of enterprises.

Prior to December, the "other cash assets" showed a tendency to increase over June levels, indicating that if currency accruing to the enterprises from individuals and deposit money accruing from the state budget during the last quarter was in part transferred to these partly blocked accounts rather than to current accounts. In December, an increase in the current accounts and a decrease in the other cash assets may have been indicated a reversal of this tendency, but as later data are not available, it is not possible to determine whether the tendency continued.

It is thus possible to make two types of conclusions concerning the effectiveness of credit controls as a means of controlling the liquidity of enterprises. First, it is possible to state that the current accounts were kept to an almost constant fraction of total current assets, which would indicate success in controlling liquidity. Second, however, this success was achieved in part by a manipulation of funds between the current accounts, and other accounts. Presumably, under present controls, it may be easier for an enterprise to persuade the National Bank to release funds in "other accounts" than to persuade it to extend credit. To the extent that this is true, it may be argued that the stability just cited may be illusory rather than real. It will not be possible to determine the validity of this second assertion, however, until data for the first half of 1953 become available.

Tentative conclusions

Yugoslavia during 1951 and 1952 attempted to create the basic elements of a price mechanism which could operate despite the existence of a socialized industry and trade. It simultaneously had to cope with two severe droughts, which would normally strain any underdeveloped agrarian economy. The adjustments which have taken place have involved sudden shifts which are only partly explainable by the operation of market forces. In part they reflect administrative measures designed to create institutions capable of operating under market conditions.

On the basis of this short study of the Yugoslav economy some conclusions may be drawn with respect to the extent to which changes in prices, output and consumption are related to each other as a result of the operation of market forces, and the extent to which they represent purely administrative changes. Similarly, in discussing the money supply and economic activity, it is necessary to decide the extent to which changes in the two are interrelated; and if they are related, it must be decided further whether the connection is a market

relation or an administrative relation. On the one hand, one cannot assume that an unplanned increase in the money supply will have no effect on output and prices (as may be true in a Soviet-type economy) but will merely increase liquidity. On the other, it appears unreasonable to assume that prices and output will react to changes in the money supply as they would in a market economy.

The Yugoslav authorities have attempted to stabilize prices at a level substantially higher than that of early 1950. This policy may reflect the practical difficulty of lowering wage levels. In part, however, it reflects a desire to eliminate elements of subsidization which had kept 1950 prices below levels indicated by market forces. The Yugoslav stability of wages and prices in the second half of 1952 is in strong contrast to the increases in wages and prices permitted in similar drought conditions in late 1950. This stability suggests that the Yugoslav economy is able to function with its new market-oriented institutions. Similarly, increases in the money supply in 1951 and 1952 represent in part a rather mechanical increase in working cash balances made necessary because transactions are, for administrative reasons, conducted at higher prices than formerly. In part, however, they may be related in a significant way to economic developments. If it were possible to separate changes in the money supply due to administrative reorganizations from changes due to the operations of a market system, it would be possible to indicate more clearly the inflationary or deflationary forces latent in Yugoslavia. However, the stability of the currency outstanding in late 1952 (contrasted to increases in late 1950) suggests that here, too, the Yugoslav system may have begun to function more effectively than in the past.

The relation between administrative reorganization and market forces is thus the main problem in understanding Yugoslav money and credit during the past two years. While this paper has not attempted to quantify the relative importance of these two factors, it has attempted to indicate, as well as possible on the basis of published data, which changes can best be ascribed to each of these two factors.