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THE POSTWAR FOREIGN TRADE OF YUGOSLAVIA

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Sources and Methodology

Information on Yugoslavia's foreign trade, both as to commodity composition and geographic distribution, has been among the most carefully withheld of Yugoslavia's postwar statistics. Prior to the break with the Cominform at the end of June 1948, only short and cryptic references to foreign trade appeared occasionally in official statements. Since that event, such references have become slightly more generous, usually in connection with recriminations against the Cominform states or apologies for Yugoslav actions. A study of Yugoslavia's postwar foreign trade requires to a large extent resort to the published foreign trade data of her trading partners. Unfortunately, in addition to the usual limitations of this method, several of Yugoslavia's more important trading partners either themselves maintain a complete statistical blackout (U.S.S.R., Albania), or release only scanty data (Bulgaria, Rumania).

In the tables that follow, all data on the commodity and country distribution of Yugoslavia's foreign trade subsequent to 1946, unless otherwise indicated, have been obtained from trading partner statistics. Data for 1945 and 1946 have been obtained primarily from an article which appeared in a Soviet foreign trade journal (Vneshnyaya Torgovlya, No. 12, 1946).

The Appendix to this article contains further discussion of the sources and methodology used, with particular reference to the difference in the data presented in Tables 4 and 5, and the estimates of total Yugoslav trade for 1947 and 1948.

Prewar and Early Postwar Trade

The prewar trade of Yugoslavia was small in absolute terms, approximately $100 million in each direction during the latter 'thirties, or equivalent to some 12 percent of national income. Its main orientation was towards Central and Western Europe. Germany, Czechoslovakia, and Austria accounted together for one-half or more of total Yugoslav trade, while Italy was another major trading partner. The U.S.S.R. and today's "peoples' democracies" (except Czechoslovakia) accounted for only a few percent. The commodity composition of Yugoslav trade was characteristic of an economically undeveloped country: exports virtually entirely of raw or crudely processed output of agriculture, forestry, and mining; imports of fuels, textile raw materials and semi-manufactures, manufactured consumers' goods, and capital goods. (Tables 4 and 5)

The foreign trade of Yugoslavia since 1945 can be conveniently broken up into three distinct periods:

(1) From the end of hostilities to mid-1947; a period of relief and initial reconstruction, with very small trade on commercial account.

(2) From mid-1947 to the break with the Cominform (mid-1948); a period of quite rapid revival of trade, and of eastward orientation.

(3) From mid-1948 on; a period of partial westward re-orientation.

Yugoslavia emerged from the war with a severely impaired productive plant and a gross national product running (by one estimate) at 40 percent of the 1938 level.1/ Thus, in the face of very great relief and rehabilitation import needs its ability to produce exportable surpluses was extremely low, especially owing to the large-scale destruction of livestock and of transportation facilities, and the serious depletion of forest reserves during the war.

1/ The Economist, London, January 19, 1946, p. 98.

Commercial foreign trade (i.e. excluding relief and rehabilitation aid) during 1945 has been estimated at $13-14 million in each direction. 1/ By far the largest contribution to imports during 1945 and 1946, as well as a large contribution during 1947, was made by UNRRA aid, which during the initial stages was equivalent to one-fourth of the gross national product produced, thus raising disposable gross national product to approximately one-half the prewar level. The composition of UNRRA aid is summarized in Table 1.

Commercial trade continued at a low level during 1946 and the first part of 1947. In 1946 the aggregate of imports plus exports was only some $125 million, or in real terms possibly as much as 40 percent of prewar. However, this probably includes trade with the Yugoslav-occupied Zone "B" of Trieste which may have accounted for as much as one-fourth of the indicated turnover. During the first quarter of 1947 the rate of trade was still very much at the same low level, as may be gleaned from two apparently contradictory Yugoslav announcements regarding exports during that quarter. The figures released were $13.9 million and $17.8 million 2/; the difference may be due to the respective exclusion and inclusion of trade with Zone "B". The severe winter in all of Europe was probably partly responsible for the failure of trade to pick up more quickly at that time.

During this initial period Yugoslav commercial trade was heavily oriented towards the U.S.S.R. and the rest of Eastern Europe. Judging by fragmentary data, during 1946 the U.S.S.R. probably took 45-55 percent of Yugoslavia's exports, and provided 25-35 percent of her commercial imports (excluding trade with Zone "B" from the totals), or $25-36 million and $8-11 million respectively. This export surplus with the U.S.S.R. accounted for most of the export surplus in Yugoslav commercial trade in 1946. It was probably, wholly or largely, in payment for military supplies (which are most likely not subsumed under commercial imports) and various "services rendered". Yet it must be viewed in the context of Yugoslavia's difficult economic position at that time and the large aid being furnished by UNRRA.

From mid-1947 to mid-1948

The ambitious industrialization and mechanization goals of the five-year plan, which was launched in 1947, raised immeasurably Yugoslavia's needs from abroad, both for investment goods for the modern and capital-intensive industries to be constructed under the plan, and for the raw materials and fuel to operate the expanded industries.

It is not quite clear how the country's planners intended to reach the goals in the virtual absence of foreign loans (except the promised credit from the U.S.S.R., mentioned below) and with the still greatly impaired exporting capacity of the economy. What may seem even more surprising was that Yugoslavia looked, by virtue of the trade agreements concluded in that period, largely to

1/ See this Review, June 3, 1947, p. 9.
2/ Yugoslav press, April 24 and 25, 1948, respectively, converted at 50 dinars = $1.

Eastern Europe (particularly the U.S.S.R., Czechoslovakia, and Hungary) for investment goods. The agreement with the U.S.S.R. was apparently the largest one (although its value had not been revealed), and included Soviet commitments to deliver on credit industrial and mining installations. It was later claimed by the Yugoslavs that no commodities were actually received on credit from any source. Hungarian reparations were to add a smaller quantity of capital equipment.

During the middle of 1947, as UNRRA aid was tapering off, Yugoslavia's commercial foreign trade began a rapid upward climb. For the whole year it reached an estimated turnover of $264 million, or possibly as much as 50-60 percent of the real volume of trade in 1938. The climb continued into 1948, and during the six months just before the Cominform break it was running at almost double the 1947 annual rate, i.e. at or over the 1938 volume. Since the turnover for the full year 1948 was also approximately double the 1947 turnover, this indicates a levelling off during the year, beginning to show the effects of both U.S. export control and of the restrictive trading policy of the Cominform states.

Our estimates indicate a large import surplus in commercial trade during 1947, although it must be recognized that the methods used may have led to a considerable overstatement. It is not clear how the import surplus was financed, although a part of the previous year's export surplus with the U.S.S.R. and shipping proceeds may have partly contributed toward its financing. This problem is further complicated by the fact that at the same time Yugoslavia was extending quite substantial credit to Albania.

The intended eastward orientation of Yugoslav trade was maintained during 1947 and 1948 (despite the break with the Cominform in mid-1948). In effect, Eastern Europe (primarily the U.S.S.R. and Czechoslovakia) stepped into the vacuum left by the virtual disappearance of Germany from Yugoslav trade. In both years some 55 percent of Yugoslav trade (excluding non-commercial imports) was with the U.S.S.R. and the "countries of peoples' democracy", although for the first half of 1948 this percentage must have been even higher. In 1938, 16.6 percent of Yugoslavia's trade was with countries in that area, but Czechoslovakia accounted for more than one-half of that fraction (9.3), playing a role vis-a-vis Yugoslavia not dissimilar to that of a Western European country. Considering prewar experience, the general non-complementarity between the Yugoslav economy and the economies of the several Eastern European states, and the expanded needs for capital equipment under the five-year plan (further accentuating that non-complementarity), there is little doubt that the predominantly eastward orientation of Yugoslav trade during this period (mid-1947 to mid-1948) rests largely on political rather than economic grounds.

In view of the price rise between 1938 and 1947, and especially the probably considerable improvement in Yugoslavia's terms of trade (which, however, may have been affected by the superior bargaining power of the U.S.S.R. and of the other Eastern European countries), exports during 1947 were still probably considerably below the 1938 export volume. Their structure reflects vividly the damage suffered by the agricultural sector of the economy, and especially the depletion in livestock numbers.

In 1938, livestock (including livestock products) comprised one-fourth of Yugoslavia's total exports (Table 4); in 1947 that ratio declined to only about 6 percent, i.e. something like one-seventh, if not less, of the prewar quantity. Recently announced quantity data for a selected list of exports of livestock, meat, and poultry items indicate a virtual disappearance of such exports since the war.1/ However, this particular list may have been intentionally selected for internal political reasons so as to minimize postwar food exports. Statistics of Western European countries show virtually no imports of animals and animal products from Yugoslavia (Table 4), and Czechoslovak statistics show only very small imports. The most likely destination of the small Yugoslav exports of livestock and livestock products during 1947 is, thus, the U.S.S.R., assuming that the information reproduced in Table 4 is correct.

Exports of all agricultural commodities (excluding alcoholic beverages) comprised only 18.6 percent of total Yugoslav exports in 1947 -- a sharp relative decline from 56.4 percent in 1938, and a reduction in real volume to perhaps one-seventh, or less. Grain exports declined from an annual average of 193,000 metric tons in 1935-39, to 29,000 tons in 1947, and rose to 71,000 tons in 1948.2/ Over one-half of Yugoslavia's agricultural exports in 1947 went to Czechoslovakia; Western Europe -- the traditional destination -- shows imports of only $5 million for that year, but with a sharp rise to more than $15 million in the first half of 1948.

Exports of timber and minerals recovered faster than those of agricultural commodities, although in 1947 they were still very considerably below the prewar volume. The timber committee of the ECE has estimated sawn softwood exports (including boxboards and sawlogs) at 58,000 standards in 1947, as compared with 197,000 standards in 1937, a relatively "high" year. Exports of other types of timber may have recovered somewhat better. Western Europe took the bulk of Yugoslav timber exports in 1947, and continued to increase such imports, so that they reached almost double the 1947 annual rate in the first half of 1948.

Ores, ore concentrates, and metals, taken as a group, were the most important item in Yugoslav exports in 1947. The bulk of this group went to countries of Eastern Europe, possibly accounting for nearly one-half of Yugoslav exports to that area. The U.S.S.R. may have taken as much as one-half of total Yugoslav exports of these commodities, which constituted probably most of Yugoslav exports to the Soviet Union. It is in this group of commodities (especially antimony, pyrites, mercury, lead, and copper) that Yugoslavia can best contribute

1/ Budget speech by Kidric, December 28, 1948.
2/ Kidric, cited.

to the needs of Eastern Europe. By 1948 such exports were apparently directed to an even greater degree toward Eastern European countries, as can be inferred from the statement by Marshal Tito after the Cominform break that during ten months of 1948 all of Yugoslavia's exports of iron ore, almost all of her exports of zinc, pyrite ore and concentrates, and lead concentrates, and most of her exports of mercury, copper, antimony, zinc concentrates, and lead went to the Cominform states. 1/

Turning now to a consideration of Yugoslavia's imports during the period preceding the break with the Cominform, our estimates show in the course of 1947 (mostly in the second half) commercial imports reached a real level which may have been from 65 to 75 percent of 1938, and may have attained the annual rate of 1938 (in real terms) during the first six months of 1948. It is claimed by a Yugoslav source (see Table 4) that 34.4 percent of commercial imports in 1947 consisted of capital construction materials and industrial machinery. This fraction is only slightly larger than for 1938 (31.6), indicating a smaller real volume. However, with the addition of deliveries of investment goods on UNRRA account (estimated at about $10 million) and of reparations from Hungary ($15-20 million at current prices), total receipts of investment goods by Yugoslavia during 1947 may have approximated or slightly exceeded, in real terms, the volume imported in 1938.

During 1948 the share of investment goods in total commercial imports had declined to 25.6 percent. The virtual cessation of UNRRA deliveries by that year and the likelihood that reparations receipts from Hungary were smaller than in the preceding year, make it reasonable to assume that the real volume of investment goods imports (commercial and non-commercial) during 1948 was not substantially larger than in 1947. In view of the very much greater postwar requirements for investment goods to satisfy the demands of reconstruction and the five-year plan, the conclusion is inescapable that commercial and non-commercial imports of such goods must have been quite low relative to the professed needs of the economy.

Where did these investment goods originate? Of the $75-80 million worth received by the Yugoslav economy from abroad during 1947, some $35-40 million worth were imported from countries outside of Eastern Europe. 2/ Czechoslovakia probably delivered about $15 million worth of investment goods, Hungary another $5 million (in addition to reparations), and other Eastern European countries (except the U.S.S.R.) negligible amounts. By subtraction, and allowing for possible errors in our series of estimates, it appears that the U.S.S.R. probably did not deliver over $5 million worth of investment goods to Yugoslavia in 1947.

1/ New York Herald Tribune, December 28, 1948.
2/ Roughly corresponding to the sum of items 12, 13, and 14 in Table 5.

It has been already estimated that Yugoslavia's total imports of investment goods were not substantially greater in 1948 than in 1947. Imports from countries outside Eastern Europe during 1948 were not much smaller than in 1947. Thus, imports of investment goods from Eastern European countries were probably not much larger in 1948 than in 1947. These calculations -- rough as they are -- support Yugoslav allegations that the Cominform states delivered little capital equipment. Although the data are lacking for a comparison with their commitments in this respect, at least the qualitative description of these commitments (especially that of the U.S.S.R.) at the time when they were made suggest much larger magnitudes than were apparently actually delivered. The Yugoslav case is further supported by the failure of the Cominform states to answer Tito's accusations in this connection.

Whether the failure on the part of the U.S.S.R. and some of the other Cominform states to deliver committed amounts of capital equipment is due to reprisals against Tito's political position even prior to the open break, or whether it is due to an over-commitment on their part, cannot be now determined. The latter alternative explanation, however, does not seem implausible. Tito has since repeatedly accused his adversaries in the East of attempting to throttle Yugoslavia's industrialization, of attempting to relegate her to a source of raw materials for the already more industrialized countries of the Soviet bloc. One may wonder whether those who shape the economic policies of the Soviet bloc did not in fact decide that the limited capital equipment available to them could be invested more advantageously in the Urals or in Polish and Czech Silesia than in Yugoslavia.

Trade and Trade Prospects after the Cominform Break

Despite the continuous deterioration in political relations between Yugoslavia and the Cominform states after the open break at the end of June 1948, and the mounting charges of bad faith with respect to trade emanating from Belgrade, there is no positive evidence of a complete economic blockade of Yugoslavia by the other countries of Eastern Europe. At least, if restrictions on trade with Yugoslavia were undertaken by the Cominform states after June 1948, they appear to have been selective rather than exhaustive, and do not seem to have resulted in a level of trade very much below that of the first half of 1948. Yugoslav (commercial) trade was oriented towards Eastern Europe virtually to the same degree (55 percent) in 1948 as in 1947, while, as our estimates show, the volume of that trade must have nearly doubled. Certainly this does not suggest anything like a comprehensive blockade, although it does not preclude the existence both of bad faith in executing contractual obligations and of some selective export restrictions. Moreover, such late statistics of the Cominform states as are available do not show any drastic fall in exports to Yugoslavia after June 1948, although some reductions have taken place, and time lags must be taken into account. Czechoslovak statistics show a decline in exports to Yugoslavia of only 15 percent (annual rate basis) during July-November 1948, as compared with January-June 1948, but a decline in the rate of imports of almost 40 percent. Hungarian data for July-September show a similar development: a decrease in the annual rate of 16 percent for exports, and of 30 percent for imports, as against the first six months of the year. However, imports of oil from Rumania and Albania, and of cotton from the U.S.S.R., may have fallen very sharply.

Nevertheless, even in the absence of anything like a blockade of Yugoslavia by the Cominform states, the lessening of political affinity between them may be expected to cause a strong re-orientation of Yugoslav trade towards the West. Should Yugoslavia succeed in developing fairly extensive trade based on economic rather than political orientation, i.e. with Western rather than Eastern Europe, she may well derive a net economic gain as a result of the Cominform break.

The intention to re-orient trade toward the West has been publicly stated by Marshal Tito in a recent speech, 1/ and numerous signs of such a re-orientation have already appeared. During the last six months, Yugoslavia has signed trade agreements with nine Western European countries, four of them accompanied by arrangements for the settlement of claims arising out of the nationalization of foreign-owned assets in Yugoslavia. The agreement with the United Kingdom (signed December 23, 1948) is especially noteworthy because of its size and of the wide range of commodities which Yugoslavia is to receive. The agreement calls for an exchange of goods to the value of $60 million in each direction (i.e. equivalent to more than one-half of Yugoslavia's trade with the West in 1948) by September 30, 1949. Yugoslavia's exports are to be primarily timber, and imports are to include, among other items, crude oil, for which it has been hitherto dependent on the Cominform states.

Of considerable assistance in such a re-orientation would be the granting of the projected credit to Yugoslavia (and several other Central and Eastern European countries), to be extended by the International Bank, for the purchase of equipment needed to increase timber production for export to E.R.P. countries.

In spite of her isolated political position at this time, Yugoslavia's international economic position can hardly be characterized as weak. As has been pointed out above, the Cominform states have not apparently suspended all trade with Yugoslavia, and have actually signed, or are negotiating, a new series of trade agreements. The more industrialized of the Cominform states have as much interest in Yugoslav exports of iron ore, of a number of non-ferrous ores and metals, and of certain other commodities (hemp, tobacco), as Yugoslavia's interest in the range of commodities which those states can realistically offer in return at this time. Trade may well continue on this basis, although on a considerably reduced scale. The general reduction of Yugoslav trade with Eastern Europe may be less extreme than that contemplated in the new trade agreement with the U.S.S.R., signed on December 27, 1948, which reduces the exchange during 1949 to one-eighth of the 1948 level. It is a strictly bilateral arrangement, and is apparently limited primarily by the smaller volume of exports which could (or would) be supplied

1/ The New York Times, December 28, 1948.

by the Soviet side. A bilateral agreement with Poland was also signed recently (January 16, 1949), and an existing agreement with Czechoslovakia has been extended.

On the other hand, an economic basis for a fair sized trade with the West does seem to exist, as Yugoslavia's surpluses of timber, ores and metals, and possibly grain, should be able to find as ready a market in the West today as they did before the war, and at significantly improved terms of trade. The scope of this trade should not be overestimated, however. The depletion of timber resources and domestic construction requirements may preclude timber exports from reaching the prewar quantity in the near future, in spite of the attractive price situation. Moreover, it has been recently stated by a prominent spokesman1/ that Yugoslavia will not in the future export foodstuffs. While large exports of animals and animal products could not be again expected for the near future, it yet remains to be seen whether the broad nature of this statement is not primarily intended for its stabilizing internal political effects. The relatively lower exports of timber and foodstuffs are intended to be partly compensated by expanding the exports of mining products, and diverting such exports from Eastern Europe to the West. In the absence of credits, it will be Yugoslavia's exporting capacity which will limit trade with the West, since demand for the western products for Yugoslav economic development, not to mention the population's need for consumers' goods, is certain to exceed by far the country's ability to export in the near future.

Appendix

It should be noted that Tables 4 and 5, differ in many essential respects. The information relating to postwar years in Table 4 is based on data which has at different times appeared in Yugoslav sources. (No commodity breakdown of 1948 exports is known to have appeared.) Imports for these years presumably exclude all commodity inflow of a non-commercial nature (UNRRA aid, private relief, reparations). The commodity groups are reproduced as given; they have not been defined further in the sources and are obviously vague. Nor has the price basis been stated, but it may be assumed to be as of the Yugoslav border. The corresponding data in the table for 1938 have been compiled from previously published statistics, and so arranged as to conform approximately to the commodity grouping.

In order to obtain a picture of the geographic orientation of Yugoslav commodity trade, Table 5 has been prepared from trading partner statistics, but giving a somewhat different commodity breakdown than Table 4. It will be noted that the percentage distribution for the postwar years refers to trade with a group of the more important countries outside of Eastern Europe, and not to total trade. On the other hand, the percentage distribution for 1938 refers to total trade. This non-homogeneous treatment has been forced by the inadequacy of the postwar statistics of several of the Eastern European countries. However, it

1/ Kidric, cited.

should be added, comparisons between the percentage distribution columns for 1938 and for the postwar years are not meaningless, as in 1938 Yugoslav trade, with the exception of a few percent, was oriented toward Central and Western Europe and the U.S. UNRRA aid and private relief shipments are included on the import side (in contrast to Table 4), and no correction has been made for the difference between f.o.b. and c.i.f. values, except for the totals.

The value of Yugoslavia's total commercial trade in 1947 and 1948 has been computed as follows. It has been revealed that 53.3 percent of all imports (presumably excluding UNRRA aid and private relief) and 56.9 percent of all exports of Yugoslavia during 1947 came from or went to the U.S.S.R. and "countries of people's democracy". 1/ Assuming that the underlying statistics are approximately on a world price basis, these percentages were then applied to data obtained from the statistics of Yugoslavia's trading partners outside of Eastern Europe, after deducting an estimated $53 million for UNRRA deliveries from the exports shown by trading partners. Finally, a 10 percent correction was made for the difference between f.o.b. and c.i.f. values. The results are shown in Table 2. It is felt that the import surplus indicated by our figures is exaggerated because of errors in estimation, although no definite correction can be applied on the basis of the available data. Moreover, our figures indicate a considerably lesser increase in trade turnover in comparison with 1946, than the 3.7 - fold increase which was claimed in the same source. However, if the 1946 data were reduced by some 25 percent to eliminate trade with Yugoslav-occupied Zone "B" of Trieste, our figures would indicate a threefold increase in turnover between 1946 and 1947. 2/ The remaining discrepancy cannot be explained with the scanty information available.

As for 1948, the estimate has been given that 55.4 percent of the turnover of Yugoslav trade in that year was with the U.S.S.R. and "countries of people's democracy". 3/ Applying this percentage to the partial trade statistics of countries outside of Eastern Europe, and projecting the calculation to cover the full year, a total turnover of $510 million may be estimated. This agrees very closely with the statement in the same source that foreign trade turnover increased by 94 percent as against 1947. The division of the turnover estimate for 1948 into exports ($260 million) and imports ($250 million) has then been made using such fragmentary information as is available.

1/ Borba, July 20, 1948.
2/ The 25 percent reduction may be inferred from data in the article in Vneshnyaya Torgovlya, cited.
3/ Belgrade radio, December 28, 1948.

TABLE 1. YUGOSLAVIA: TOTAL UNRRA RECEIPTS, BY COMMODITY GROUPS.

Commodity Program	Millions of Dollars
Food	135.0
Clothing, Textiles, and Footwear	81.8
Medical and Sanitation	19.9
Agricultural Rehabilitation	36.0
Industrial Rehabilitation	108.1
Takeovers from Military	34.7
Total	415.6

Source: UNRRA, Bureau of Supply, Final Operational Report, March 1948, Table 89.

TABLE 2. YUGOSLAVIA: FOREIGN TRADE; 1938, 1945-48.
(in millions of dollars)

	1938	1945	1946	1947	1948
Imports	115.0	207.6	232.1	225.4	(251.3)
Commercial	115.0	13.0	48.2	149.8	250.0
UNRRA aid (f.a.s. basis)		190.1	172.4	53.0	
Private relief		3.7	5.4	2.3	1.3
Reparations from Hungary		0.8	6.1	20.3	n.a.
Military supplies	no data				
Exports	116.7	14.0	76.9	114.4	260.0

Sources:

Commercial Trade: 1938 - U. S. Department of Commerce, Foreign Commerce Yearbook (1939); 1945 - this Review, June 3, 1947, p. 9; 1946 - Vneshnyaya Torgovlya (Foreign Trade), Moscow, No. 5, 1947, p.43; 1947 and 1948 - see text. Figures for 1945 and 1946 probably include trade with Yugoslav-occupied Zone "B" of Trieste.

UNRRA Aid: Report to Congress on Operations of UNRRA (various issues); and UNRRA, Report of the Director General to the Council (various issues).

Private Relief. from the U. S., as given in U. S. Department of Commerce Foreign Commerce Weekly, (various issues), is considered to be 75 per cent of the total.

Reparations: Gazdaságstatisztikai Tájékoztató, Budapest, February 1948. Values doubled to approximate current price levels.

TABLE 3. YUGOSLAVIA: FOREIGN TRADE BY COUNTRY, 1938, 1947, 1948
(in millions of dollars)

	Imports (including UNRRA aid)			Exports		
	1938	1947	Jan-June 1948	1938	1947	Jan-June 1948
U. S.	6.9	29.6 1/	3.4	5.9	5.5	2.2
Austria	7.9	1.8	2.5	7.1	2.6	5.5
Belgium	1.1	2.7	5.2	7.8	1.7	1.7
Canada	neg.	6.7	0.6	neg.	neg.	neg.
Denmark	0.2	0.2	0.1	0.7	0.1	0.1
France	3.3	4.0	1.6	1.7	2.3	2.1
Germany 2/	37.4	0.1	0.8	41.9	0.1	neg.
Greece	1.5	neg.	neg.	3.0	.3	neg.
Italy	10.3	15.1	10.1	7.5	20.7	11.4
Netherlands	1.4	4.8	3.9	2.5	5.8	10.1
Norway	neg.	1.2	0.1	neg.	0.4 3/	0.1
Sweden	0.8	1.6 3/	1.6	0.7	1.9	6.0
Switzerland	2.2	3.4	4.2	1.9	5.4	4.5
United Kingdom	10.0	20.5	6.2	11.2	3.0	5.0
Argentina	2.1	neg.	neg.	1.1	neg.	neg.
Other Western Countries	9.8	25.0 4/	n.a.	5.9	5.0 4/	n.a.
Total, Western Countries	94.9	116.7 5/	n.a.	98.9	54.8	n.a.
Bulgaria	neg.	3.9	8.3 6/	neg.	2.6	3.4 6/
Czechoslovakia	12.3	35.3	27.6	9.2	27.0	26.3
Finland	neg.	neg.	neg.	neg.	neg.	neg.
Hungary	4.4	6.9	6.7	neg.	neg.	neg.
Poland	0.9	4.5	n.a.	5.0	11.2	14.3
Rumania	2.4	0.6	n.a.	1.7	6.7	n.a.
Albania	.1	(	(n.a.	1.2	0.8	n.a.
Germany: Soviet Zone		21.4 7/	(n.a.	0.7)	24.0 7/	n.a.
USSR	neg.	(	(n.a.	neg.)		n.a.
Total, Eastern European Countries	20.1	72.6 7/	n.a.	17.8	72.3 7/	n.a.
Total, World	115.0	189.3 7/	n.a.	116.7	127.1 7/	n.a.
of which: UNRRA aid		53.0				
Ditto, less UNRRA aid and adjusted to value at Yugoslav border (i.e. corrected for f.o.b - c.i.f. difference)	115.0	149.8	n.a.	116.7	114.4	n.a.

Sources: Statistics of Yugoslavia's trading partners and some data announced in Yugoslav sources, as explained in the text. Nineteen thirty-eight data from U. S. Department of Commerce, Foreign Commerce Yearbook

Note: Only the 1947 totals have been adjusted (by 10 per cent) for the c.i.f. - f.o.b. difference. Individual items for 1947 and 1948 have not been so adjusted.

neg. -- Trade under $50,000 or too small to be mentioned in country statistics.
n.a. — Not available.
1/ UNRRA deliveries included in total equal to $23,900,000. UNRRA deliveries in 1948 negligable.
2/ 1947 and 1948 figures are for the combined US - UK zones only.
3/ Derived from commodity breakdown, "Sveriges Varuinforsel Fran Olika Lander, Ar 1947". Country totals published in "Kommersula Meddelanden" for 1947 smaller.

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TABLE 4. PERCENTAGE DISTRIBUTION OF YUGOSLAVIA'S TOTAL FOREIGN TRADE BY COMMODITY GROUPS, 1938, 1947-48.
(From Yugoslav Sources)

	1938	1947	1948
Imports (presumably excluding UNRRA aid)			
Raw materials	39.6	57.8	67.2
Capital construction materials	12.9	19.4	(
Industrial machinery	18.7	14.9	(25.6
Manufactured /consumers'?/ goods	17.0	7.9	7.2
Other	11.9		
Total	100.0	100.0	100.0
Total, in millions of dollars	115.0	149.8 1/	250.0 1/
Exports			
Mining products	15.5	26.6	
Timber	15.2	21.6	
Industrial crops	7.8	14.4	
Manufactured goods	5.1	11.5	
Alcholic beverages	-	7.3	
Medicinal plants	0.3	(	
Grains	15.0	(6.5	
Fruit	3.8	6.2	
Livestock /including products?/	24.6	5.9	
Other	12.7		
Total	100.0	100.0	
Total, in millions of dollars	116.7	114.4 1/	260.0 1/

Sources: Yugoslav data cited as follows, 1938: U. S. Department of Commerce, Foreign Commerce Yearbook; 1947: T-528, Belgrade, April 29, 1948, Restricted; 1948: T-14, Belgrade, January 6, 1949, Restricted.

1/ Estimated, see text.

Footnotes continued from Table 3 --

4/ Estimated; includes UNRRA aid originating in countries not listed.

5/ UNRRA deliveries, estimated at $53,000,000 are included.

6/ Estimated on basis of data for January - April.

7/ Estimated - no data available. For methods of estimation see text.

TABLE 5. YUGOSLAVIA: FOREIGN TRADE BY COMMODITY GROUPS; 1938, 1947, 1948
A — millions of dollars
B — per cent of total

IMPORTS (incl. UNRRA aid) 1938 Total Imports A	B	1947 Imports from Selected Western Countries 1/ A	B	Jan-June 1948 A	B	Commodities	EXPORTS 1938 Total Exports A	B	1947 Exports to Selected Western Countries 1/ A	B	Jan-June 1948 A	B
4.7	4	4.1	5	1.3	4	1. Foodstuffs, vegetable & animal 2/	53.6	46	3.8	8	14.2	35
-	-	(.1)	neg.	(.1)	neg.	Animals & animal products 2/	(19.1)	(16)	(.8)	(2)	(.2)	(1)
-	-	.1	.1	2.0	6	2. Fats & oils, vegetable & animal	2.2	2	neg.	neg.	1.0	2
9.8	8	5.5	7	2.7	8	3. Chemicals and allied products	4.8	4	3.4	7	1.0	2
2.3	2	1.2	1	.5	2	4. Rubber and mfrs.	-	-	-	-	neg.	neg.
-	.	.7	1	.2	1	5. Wood and mfrs.	17.8	15	18.7	40	16.0	39
2.9	2	.7	1	.8	3	6. Paper and mfrs.	-	-	.1	neg.	neg.	neg.
3.5	3	.9	1	neg.	-	7. Hides, skins, furs, leather & mfrs.	2.2	2	1.5	3	.3	1
34.0	30	12.7	16	7.6	24	8. Textiles, raw materials & mfrs.	4.0	3	1.2	3	.1	neg.
4.2	4	.9	1	.3	1	9. Fuel, lubricants, power & rel. prod.	-	-	1.0	2	2.1	5
2.6	2	2.3	3	1.0	3	10. Non-metallic minerals & mfrs.	2.5	2	6.7	14	.4	1
.6	1	neg.	neg.	.1	neg.	11. Prec. metals, stones and art thereof	-	-	neg.	neg.	-	-
14.8	13	2.8	3	1.9	6	12. Base metals, ores & mfrs.	16.7	14	7.4	16	3.4	8
15.7	14	26.4	33	7.5	23	13. Machinery, appar., & appliances	-	-	neg.	neg.	.1	neg.
5.8	5	9.6	12	3.0	9	14. Vehicles and parts	-	-	neg.	neg.	neg.	neg.
14.1	12	13.0	16	3.3	10	15. Miscellaneous	12.9	11	3.2	7	2.5	6
-	-	80.9	100	32.2	100	Sub total, selected Western Cos.	-	-	47.0	100	41.1	100
-	-	35.8				Other Western Cos. (Estimated)	-	-	7.8			
-	-	116.7				Total, Western Cos.	-	-	54.8			
-	-	72.6				Eastern European Cos. (Estimated)	-	-	72.3			
115.0	100	189.3				Total, World	116.7	100	127.1			
		53.0				of which: UNRRA aid						
115.0		149.8		n.a.		Ditto, less UNRRA aid, and adjusted to value at Yugoslav border (i.e. corrected for f.o.b. - c.i.f. difference).	116.7		114.4		n.a.	

1/ U.S., Switzerland, Italy, France Denmark Netherlands, Austria, Sweden (1947 only), U.K., and Norway (1948 imports only).

2/ May include some inedible animals and animal products.

See "Sources" and "Note" to Table 3.

POSTWAR INTERNAL FINANCIAL SITUATION IN INDONESIA

Harrison Parker

Indonesia, as the Dutch controlled territory in the Netherlands Indies (i.e., excluding the area controlled by the Republic of Indonesia) is now known, occupies one of the more strategic positions, both geographically and economically, in Southeast Asia. It produces a large part of the world's supply of many strategic raw materials, such as rubber, tin, oil, and copra, as well as large quantities of quinine, spices, kapok, palm oil, tea, coffee, and bauxite. The population is about 70 million.

The economy of Indonesia is essentially of a colonial, or extractive, nature, and is divided into two spheres: the "western" (or European), and the native. The "western" sphere is in the form of a progressive capitalist system composed of plantations and industrial, commercial, financial, and other enterprises, which supports most of the non-Indonesian (European and Asiatic) population of about 1.6 million (before 1941), and about 15 per cent of the natives. The native sphere is based on subsistence agriculture and self-sufficiency in handicrafts over small areas. The boundary between the two spheres is indistinct. The economy is geared primarily for export, and depends very heavily on imports of industrial and agricultural consumer products to fulfill its domestic requirements.

During and after the war, the islands endured a great amount of destruction. In the postwar period, Dutch authorities returned to find that they faced the necessity of instituting a large relief, rehabilitation, and investment program without which the recovery of the export surplus would be impossible, and at the same time they had to deal with the nationalist aspirations and opposition of parts of the native population. The Dutch have received credits and aid from the United States to help them in their recovery program. They have based their own domestic recovery program on the success of their efforts to restore Indonesia to its traditional place as a supplier of essential goods on the world market, and as such, the source of the overseas income so vitally needed to maintain the standard of living of the Dutch people.

In summarizing the internal financial developments in Indonesia, this paper discusses the large postwar budget deficits incurred by the Dutch-controlled government of Indonesia, the debt and currency expansion resulting therefrom, and the general inflationary situation which the government now faces, in the light of the restricted recovery of commercial activity and private investments and the demands made upon the economy by military operations and the relief and rehabilitation program.

Summary of Conclusions

The critical inflationary problems in Indonesia are still as serious as ever. There has been little success as yet in attracting the overseas private investment which used to fill all the needs of the Indies in this respect. Economic activities, which were disrupted by the war, are still in a state of upheaval in the areas affected by the activities of the native opposition.

The slow recovery of private economic activity from which taxes could be drawn, the necessity of supporting a large military force in Indonesia, and the requirements of relief and rehabilitation all caused the government's budget deficits to be unusually high in the postwar years. This situation had been improving up to the time of the outbreak of intensified military activity in December 1948, as plantation and other productive facilities in Dutch-controlled areas had been rehabilitated in large part. However, it is probable that the recent outbreak of military action will mean losing ground to the inflationary pressures for some time to come, even if peaceful conditions can be enforced.

The huge budget deficit, together with the great shortage of consumer goods, has produced a serious inflationary situation. Prices of consumer goods are up to 10 to 25 times prewar; the volume of money has increased four times from 1939 to 1947; the islands have been saddled with a heavy debt, and foreign investment has been discouraged. The attempt has been made to meet the shortage of consumer goods by importing them and using them as "incentives" for the production of exports. The use of these barter methods, although they are a workable substitute for the use of money in a virtually pure agrarian state such as Indonesia, where there is little integration of the internal economy, will have to be curtailed before a return to a modern monetary economy will be possible.

The Dutch success in raising the production of exportable commodities by short-term, temporary methods has thus been accompanied by neither a restoration of normal private economic activity nor progress in balancing the budget. Before any real improvement in the internal financial situation in Indonesia can be expected a cessation of military activities and attainment of political peace will have to be brought about; then a long range program of investment, drawing on private and governmental revenues sources, will have to be developed. However, even this program will be insufficient to protect Indonesia's finances from undue and disruptive sensitivity to external conditions; a program of industrial development and a sustained effort to develop domestic sources of investment to cover a higher percentage of Indonesia's needs seems necessary before real stability can be obtained.

Position of Budget in Indonesian Economy

The budgetary position of the government of Indonesia represents the major, and controlling factor in the whole economy influencing the present inflationary situation. Due to political unrest, almost no foreign private capital (which was the main source of private investment before the war) has entered Indonesia. The only major exception to this trend has been evident in the oil industry located in Dutch controlled areas, which has been rapidly rehabilitated and expanded; this has been achieved through favorable foreign exchange arrangements, under which the government has permitted these industries to use all their foreign exchange earnings directly for the purchase of additional equipment. Private investment activity in other economic fields was slight due to the political unrest, and the government decided to set up special temporary importing, exporting, and distributing organizations after the war. For example, Dutch and

British plantations were put back into operation where possible by the government using a minimum of new equipment, and utilizing all the salvagable equipment available. Private companies did not begin to come back into these activities until 1947 and 1948. U.S. concerns owning rubber plantations have only recently decided to return to the operation of their properties.

Most of the postwar investment in Indonesia so far has therefore been on the account of the government, which has tried to rehabilitate the transportation and communication systems, to start on a program of public works, to re-establish its own economic ventures*, and, as mentioned above, temporarily to take over a commercial role while conditions of unrest prevailed.

Total public and private investments for 1949-50, for example, are estimated by Dutch authorities as equivalent to 795 million guilders ($300 million at Gd. 2.65 = $1), or 17 per cent of the estimated national income of 4,770 million guilders ($1,800 million) for the same year. Savings in the economy, however, are slight, and thus provide only a very small source of domestic private capital for investment. They are estimated at 80 million guilders ($30 million) for 1949-50, which is 2 per cent of the estimated national income of 4,770 million guilders for the same year. Thus, the volume of investment from overseas (both public and private) which would be necessary to meet the total investment program was estimated at 712 million guilders ($268.7 million). Duth authorities hope that a large part of this will be private investment. This has not been true in the past three years, as pointed out in the preceding paragraphs. From 1946 through 1948 savings were at a level lower than that estimated for 1949-50. National income for 1948-49 was estimated at 3,445 million guilders ($1,300 million at Gd. 2.65 = $1), as against an estimated figure of 3,000 million guilders ($1,600 million at Gd. 1.88 = $1) in 1939. The postwar foreign investment, where it was not obtained through ECA grants, resulted in large debts to the Netherlands on the part of Indonesia, and the incurring of a debt to foreign governments other than the Netherlands for the first time in Indonesian history.

The low level of savings is due to the colonial nature of the economy in which population pressure is intense, most of the land is owned by the people who cultivate it, and the industrial equipment is mainly of the home or craft type. Hence, few Indonesians have any surplus income available for savings. The present inflationary situation also has the effect of discouraging savings. Dutch sources emphasize, however, that there are considerable unrecorded investments made out of the unrecorded labor and savings of landowners who established and tilled plantations. Nevertheless, this low level of savings in the Indies' economy emphasizes not only its dependence upon foreign investment for rapid development of its resources, but the necessity to increase savings in the future if a secure economy is to be established.

The inflation, occurring in an agricultural and colonial economy of this type, has had an even more serious effect on the economy than discouragement of savings. The lack of reasonably priced consumer goods such as textiles on the market resulted in a fall in production on the part of the natives, who normally

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* Before the war the government owned or participated in the fields of mining, petroleum, agricultural estates, banking, salt and opium manufacturing.

are depended upon for labor in the plantations, or who produce exportable commodities from their own economy. Therefore the government has imported consumer goods -- textiles mainly -- to be sold at controlled low prices or directly traded as "incentive" goods in order to promote production. This partial reversion to a barter economy has succeeded in raising production of agricultural exports far above that which could have been obtained under ordinary market conditions, as the consumer goods desired by the natives either did not exist or were being sold at prices far out of their reach.

Even under prewar conditions there was no market for government securities among the people, and this is even more true today in the light of the condition described above. Indeed, the only major domestic source from which the government can borrow is the Bank of Java, its bank of issue. The volume of non-governmental domestic long-term credit is thus so small as to be insignificant when compared with the volume of investment which comes from abroad in normal times.

Budgetary Situation

The finances of the Netherlands Indies are greatly influenced by the prevailing world situation. Because of the nature of the Indonesian economy, the depression created large deficits in the early thirties, due to the contraction of economic activity in the economy caused by the fall in demand for and prices of the exported commodities. Some improvement in the budgets came in the late thirties, but in 1939 expenditures for defense became heavier, resulting in increased overall deficits.

Selected Budgets of Netherlands Indies
Unit 1,000,000 guilders

Year 1/	1935	1939	1940	1946	1947 2/	1948 2/
Expenditures	330.7	516.9	571.8	1,084	2,137	1,750
Receipts	317.3	470.6	554.1	151	242	833
Deficit	13.5	46.3	17.6	933	1,895 3/	917

1/ Fiscal year = calendar year
2/ Budget estimate
3/ Actual deficit known to be nearer 1,350 million guilders

SOURCE: Official Dutch figures

The postwar budgets show a marked change, the most serious being a large deficit which, insofar as it was met in Indonesia, had an inflationary effect. The government expenditures increased from two to four times over prewar, but prices of domestically produced goods rose from 10 to 25 times over the same period; therefore, the real value of the expenditures in the postwar period was probably lower than prewar. This, together with the fact that these postwar budgets were only for the administration of part of the total territory of the Indies, emphasizes the deterioration which has taken place.

Postwar Expenditures

The figures available for expenditures in the postwar budgets are broken down only by governmental departments, and therefore it is difficult to segregate purely administrative expenditures, social services, public works, defense, and other categories from each other. In the table below, a partial breakdown is attempted.

Purposes of Netherlands Indies Government Expenditures
Unit 1,000,000 guilders

Year	1946		1947 1/		1948 1/	
	Amount	Percent	Amount	Percent	Amount	Percent
War Department	348	32	830	39	548	31
Administration 2/	474	44	517	24	512	30
Social Services 3/	34	3	347	16	292	17
Debt Service	105	10	231	11	115	6
Public Works etc 4/	123	11	212	10	283	16
Total Expenditures	1,084	100	2,137	100	1,750	100

1/ Estimated
2/ Includes expenditures of Government and Governmental Bodies; and the Departments of Justice, Finance, Economics, and Indian Civil Service.
3/ Includes expenditures of Departments of Social Affairs, and Education and Public Worship, and the Public Health Service.
4/ Includes Departments of Traffic and Public Works, and Shipping.

This table shows that the share of the War Department is the largest of any of the government departments, and rose from 32 percent of total expenditure in 1946 to 39 percent in 1947. The estimated budget for 1948 cut the military expenditures to 31 percent, but in view of the continued warfare and inflation the actual percentage was greater. An official Dutch source recently said the portion of the cost of military operations in Indonesia in 1948 which was borne by the Indonesian Government was about 1,040 million guilders, or nearly double the amount budgeted.* Administrative expenses have remained reasonably constant in terms of value, but this reflects the opposing influences of two factors; first, the downward influence of the gradual tapering off of relief administration and government operation of the economy, and second, the upward influence of inflation making itself felt through salary raises, etc. The increasing share

* N.Y. Times, January 18, 1949, page 8.

of social services and public works is an encouraging sign that the government is again able to assume its prewar responsibilities in these fields. The peak in the debt service in 1947 is attributable to payment of back interest and arrears on prewar debt. It must be emphasized that the 1948 budget was estimated early in 1948, and that events during 1948 may have forced a repetition of the 1947 experience, with little improvement.

One of the two principal characteristics of the expenditures over the last three years is the drain on the economy caused by the military operations. Where only about 10 percent of the budget was devoted to this purpose in prewar years, from 32 to 39 percent or more was spent for arms in the postwar period. The Indonesian government defrays the entire cost of maintaining the army in the Indies, which has grown from a prewar 40,000 men to an estimated 150,000 men in the postwar period. The pay of Netherlands Army personnel is the only part of this expenditure which is reimbursed by the Netherlands Government, but this is only a bookkeeping transaction as it only serves to reduce somewhat the large debt of the Indonesian government to the Netherlands. These large expenditures in Indonesia serve to withdraw goods and services from the civilian economy; both of these factors serve to increase the inflationary pressures on the whole economy.

The other significant characteristic is the large amounts which have been spent for relief and rehabilitation. This was estimated at 611 million guilders in 1947, and 441 million guilders in 1948, and covers the whole range of activities covered in the budget with the exception of defense. Special government organizations were set up to take care of the immediate postwar problems in importing, exporting, and distribution. Large amounts of foods and textiles were imported or purchased domestically, and then sold at controlled prices to help fight the rising cost of living. Moreover, the use of such commodities as incentive goods proved to be the most successful short-term way to increase production. The government hoped that the improving economic conditions, as well as continued ECA aid, would enable it to reduce its burden on this account. The special government institutions are supposed to have been liquidated by the end of 1948, but it is doubtful that government relief and rehabilitation expenditures will drop much so long as the political unrest continues, especially since ECA aid has been suspended.

Therefore it can be seen that two of the main inflationary expenditures of the government in the postwar period, although reduced in amount in the 1948 budget, may easily have been much greater than planned due to the recent flare-up of military activity, and may prove to be an equally great burden in the coming year.

Government Receipts

Tax revenue and income from other sources covered only a fraction of government expenditures during the postwar period, and the problem of raising the level of economic activity and finding new sources of income has plagued the authorities. Taxes, both prewar and postwar, are derived mainly from the western sector of the economy, and are divided into two general categories: direct assessment taxes, comprising company, income, property, and wages taxes; and indirect duties such as import, export, statistical, and excise duties. In the prewar period, income from all taxes varied from 250 to 300 million guilders per year, with import and excise duties being the most lucrative. There is no available information as to the actual income of the Government of Indonesia from individual tax sources in the postwar period.

Income from all taxes in 1946 was 129 million guilders, which rose to an estimated 226 million guilders in 1947, and was projected to 390 million guilders in 1938. This shows the effect of better tax administration and increased economic activity, but it must be remembered that in the light of the inflation, in which the volume of money had expanded four times from 1939 to the end of 1947, and in which prices of the necessities of life had increased from 10 to 25 times over the same period, the real value of these tax receipts was reduced far below the prewar value.

A major postwar non-recurring source of revenue was the profits from special importing, exporting, and distributing institutions set up by the government after the war. The liquidation of these institutions began in 1947 and was to be completed in 1948. These institutions made considerable profits, only a small part of which (10 million guilders) was released in 1947 to raise the government receipts in that year's budget. This withholding of profits had an inflationary effect at the time. However, the accumulated profits and proceeds from the liquidation of these enterprises are listed in the estimated 1948 budget, thereby raising receipts during 1948 by over 402 million guilders. This liquidation of surpluses does not represent real revenue for that year, and the expenditure of these funds therefore had an inflationary effect in 1948.

Deficit

Overall deficits in prewar budgets of the Netherlands Indies Government never ran above 10 per cent of total expenditure, and usually were well below 5 per cent. In view of the economic activity and investment going on at the time, and the sound monetary policies followed by the government, this was not a dangerous situation. However, in the postwar years, this situation was radically changed.

In 1946, out of a total expenditure of 1,084 million guilders, the deficit ran to 933 million builders, or 86 percent. Of this deficit, 622 million guilders was financed by government note issue, and by credits from the Bank of Java; the other 311 million guilders was covered by drawing on credits established in Holland and other countries. The deficit for 1947, as reported by the Dutch, was near 1,350 million guilders, or 65 percent of budgeted expenditures; this improvement was due to higher tax revenues and lower expenditures than expected, and also to non-recurring profits from temporary government enterprises, referred to in an earlier section. This deficit was financed as follows: in the Indies by credits provided by the Bank of Java of approximately 440 million guilders, and by an issue of government currency notes of approximately 330 million guilders; in the Netherlands by the use of credits established in the Netherlands Treasury; and in other areas by drawing on foreign credits.

The estimated 1948 budget foresaw total expenditures of 1,750 million guilders and a deficit of 917 million guilders, or 52 percent. Since this budget was determined early in the year on the basis of a considerable decrease in extraordinary relief and military expenditures which would not seem to be justified by the state of hostilities which existed during the year, it would seem probable that actual expenditures, and the deficit, would be much higher than anticipated. Another point which must be noted is that the seemingly high receipts of 833 million guilders estimated for 1948 include the 402 million guilders, mentioned under receipts, from the profits and liquidation of the special government enterprises dealing with imports, exports, and distribution. This cannot be considered a true receipt, and therefore the real deficit incurred during 1948 must have been comparable to, if not more serious than, that incurred in 1947.

In the above discussion, two methods of meeting the government deficits stand out. One is by increasing the government debt,held in the Netherlands or overseas, which is not inflationary in the domestic economy of itself. The other is the issuance of notes by the government, or by the Bank of Java when it extends credits to the government. The effect of the postwar financial operations of the government on the government debt and on the volume of money will therefore be taken up in that order.

National Debt

The national debt of the Netherlands Indies government before the war showed a gradual increase, but in relation to the annual budget and national income the debt position was not unfavorable. It was well managed, and interest and amortization were paid out of the normal income of the government. Of the long term loans issued 90 percent were taken up by "investors in the Netherlands and 10 percent by investors in the Indies." In 1941, there were no foreign (non-Dutch) loans outstanding.

From 1936 to 1940 a greater percentage of the floating debt was taken up in the Indies, and the funded debt started a slow decline from the high of 1936 which has continued to the present day.

Netherlands Indies Government Debt
Unit 1,000,000 Guilders

Year	Floating Debt In Neth-erlands	Floating Debt In the Indies Old Adm.	Floating Debt In the Indies New Adm.	Floating Debt Total	Funded Debt	Total Debt
1936	76	6	-	82	1,348	1,425
1940	69	106 2/	-	176	1,212	1,387
1945	386	566 3/	375 3/	1,326	1,049	2,375
1946	577	566 3/	534 3/	1,687	983	2,634
1947	897	508 3/4/	1,215 3/	2,629	945	3,574
1948, Aug. 31	-	-	-	-	-	4,100

1/ Communication from Netherlands.
2/ From Netherlands Indies Report 1941 (Statistical Abstract).
3/ According to Dept. of Finance at Batavia, with exclusion of account of Exchange Control Service.
4/ Including debt balance in Netherlands ("F" Account).

SOURCES: 1936-47 figures from Netherlands Government "Economic and Financial Survey of Indonesia, April 2, 1948."
1948 figure: ECA "Long Term Program of Indonesia," December 13, 1948.

During the war, the Netherlands government increased the Indonesian floating debt held by the Dutch Treasury in order to amortize the long term debt and cover interest payments thereon, as well as to pay pensions and leave allowances to Dutch nationals. As a result, the floating debt held in the Netherlands had increased from 69.1 million guilders in 1940 to 385.5 million guilders in 1945.

In the postwar period the Netherlands Indies Government was forced to increase its floating debt many-fold. From a total floating debt of 1,326.2 million guilders in 1945, of which 940.7 million was held in the Indies and 385.5 million in the Netherlands, the floating debt doubled by the end of 1947 to a total of 2,629.1 million guilders, of which, 1,722.5 was held in the Netherlands. The funded debt was slowly reduced during this period, to a sum of 944.7 million guilders in 1947. The total guilder debt in 1947 therefore stood at 3,373.8 million guilders.

In 1948 a deficit was projected of 917 million guilders, of which a part is expected to be met from foreign credits. However, the latest figure for the total guilder debt - 4,100 million guilders as of August 31, 1948 - seems to show that the deficit was larger than anticipated. The latest figure also seems to show that the Netherlands Indies government is going into debt at an increasingly faster rate.

The total national debt as of August 31, 1948, aside from the guilder debt mentioned above, included \$87 million and A.£ 7.5 million. The total national debt, including both guilder and foreign debt, was equivalent to U.S. \$1,200 million on that date.

It is the increase in the floating government debt held in the Indies which emphasizes one of the inflationary pressures on Indonesia. This increase in debt is characterized by a corresponding increase in the volume of money, which is discussed in the next section.

Volume of Money and Exchange Reserve

Before the war, the money supply of the Netherlands Indies was made up of notes issued by the Bank of Java which had a legally-required metallic cover, and by silver and subsidiary coinage. A Dutch source estimated that the total volume of money (including currency and current account deposits) at the end of 1939 was about 629 million guilders, or about U.S. \$344 million at the exchange rate of U.S. \$1 = Gd. 1.88½ then prevailing.

During the period between the German invasion of the Netherlands in May 1940, and the Japanese conquest of the Indies in May 1942, financial transactions with the Netherlands came to a complete standstill. As a result, the large surplus of liquid funds usually transferred to the Netherlands by government and private sources was accumulated in the Indies and was reflected in high bank balances, and an increase in the volume of money. The government during this time was forced to issue notes of its own (now known as old Indies Government notes) which had no metallic cover. The volume of money rose to 1,294 million guilders in 1941, comprising 577 million guilders in currency, and 717 million guilders in current account deposits.

Volume of Money in Indonesia
Unit 1,000,000 guilders

End of year	1941	1946 1/	1947 2/
Money in Circulation	577	1,121	1,489 2/
Current Account Balances	717	892	1,254
Total Volume of Money	1,294	2,013	2,743

1/ Excluding currency in circulation in Republican areas.
2/ Another source estimates that 2,151 million guilders were in circulation on December 31, 1947.

From May 1942 to September 1945, the Japanese authorities issued a distinctive guilder currency of their own to finance occupation expenses, leaving the volume of prewar legal tender money at the same level. From September 1945 to March 1946 the Allied military authorities financed their occupation costs from captured stocks of Japanese guilder notes. About 8,000 million guilders of this Japanese currency was issued over those four years. The authorities attempted to withdraw the Japanese guilders beginning March 6, 1946, and they were declared no longer legal tender on October 31, 1946. This attempt to dispose of the problem failed, however, due to the unrealistically low exchange rate set for the Japanese guilder, and the domestic instability prevailing at the time. An estimated 3,000 million Japanese guilders remained in circulation as of early 1948.

The Japanese guilders, as well as the prewar legal tender money, were to be withdrawn after March 6, 1946, in return for a new Indies government currency known as "Nica" (Netherlands Indies Civil Administration) currency. At the same time, the Government devalued the Indies guilder to a rate of U.S. $1 = Gd. 2.65, thus restoring its 1 to 1 exchange rate with the Netherlands guilder which it had lost when the Netherlands guilder had been devalued in September, 1945. In order to alleviate inflationary pressures, the Indonesian government adopted measures in March 1946 to hold down buying power by putting restrictions on the use of prewar bank deposits, and by freezing a part of the volume of currency by declaring the higher denomination Bank of Java notes not to be legal tender for a temporary period. However, the attempt was not very successful; in July, 1947, the Bank of Java resumed its prewar function of issuing notes, and in May, 1948, the legal tender quality of the pre-occupation Bank of Java notes and old Indies Government notes was restored. At present, therefore, the currency in circulation in areas controlled by the Indonesian government consists of old and new Bank of Java notes, old Indies Government notes, "Nica" notes, and the coinage.

The failure of the government in its efforts to control the amount of currency in circulation was largely caused by the budget deficits incurred by the government over this period, and resulted in an inflationary rise in prices resulting from the shortage of goods and services for which the newly-created purchasing power was competing. This rise in prices amount to 10 to 25 times prewar for consumer commodities. From 1939 to 1947 the total volume of money quadrupled in size to at least 2,743 million guilders (or U.S. $1,034 million at U.S. $1 = Gd. 2.65), of which 1,489 million guilders was currency, and 1,254 million guilders current account deposits. About half the expansion occurred in the postwar period. This expansion has continued at an accelerated pace to the present date.

The resumption of the note-issuing function by the Bank of Java in 1947, with the intention of eventually replacing all currency in circulation with Bank of Java notes, raises the interesting problem of the metallic cover required for these notes, and, consequently, of the size of Indonesia's gold and exchange reserves.

The gold reserves of the Indies, held by the Bank of Java, are required as a metallic cover for notes issued by the Bank of Java at a ratio fixed by the Governor General. This ratio was fixed at 40 per cent in 1936. In prewar years, the gold reserve was always well in excess of the necessary percentage, and therefore could be used as a cushion for balance of payments deficits. In the postwar period, however, the note issue from all sources, which has been made a commitment of the Bank of Java, has expanded to well over 2,000 million guilders.

Therefore, the existing gold reserve, which dropped from \$202 million on V-J day to \$180 million (477 million guilders at Gd. 2.65 = \$1) in 1948, is inadequate to meet the required cover.

Indonesian dollar balances have also fallen, from \$114 million in December 1945 to a minimum working level of \$50 million in November, 1948. Presumably the formal requirement for metallic cover for the currency could be eliminated if necessary; the more serious problem arises from the recurring need to deplete Indonesian gold and dollar holdings for meeting external balance-of-payments deficits.