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**CENTRAL INTELLIGENCE GROUP
INTELLIGENCE REPORT**

COUNTRY Yugoslavia

DATE: 25X1X6

INFO. [REDACTED]

SUBJECT General Economic Situation
in Croatia
25X1A6a

DIST. February 1947

"LIBRARY COPY" PAGES 7

SUPPLEMENT

ORIGIN [REDACTED]

25X1X6

General Economic Situation

1. The general economic situation in Croatia continues to deteriorate daily. Basic factors accountable for this are: (1) the poor harvest; (2) industrial production which is quantitatively and qualitatively below expectations; and (3) low purchasing power of the population.
 - A. **Food:** Of the food supply available to the population, 30% is obtained from Government-operated enterprises and 70% is supplied by farmers in the free market. Plans for 1947, however, call for 75% of the food supply's being administered by the Government on a ration basis. In Zagreb the price index for food available on the free market rose from 100 to 225 over the period August through 31 October 1946. In the same period the proportion of food supplied from Government sources dropped from 30% to 17%, while the price index for goods supplied from such sources, rose from 100 to 130. This is accounted for by the farmers' withholding their produce from Government procurement agents. The farmers' attitude is based in part, on the lack of industrial products available for farm consumption. This, in turn, may be traced to the increased export to the USSR of industrial products needed for domestic use.
 - B. **Export Trade:** Besides 30% of the total Yugoslav cement production, other exports to Russia include lumber, textiles, corn, copper, and copper sulphide. During the month of September 1946, Croatia alone exported about 40,000 tons of all products with an official value of 320 million dinars. Since export prices to the USSR are frequently considerably lower than prices to other countries, Russians are able to buy imported Yugoslav products at a lower price than Yugoslavia can buy them domestically. The profit made by Russia on such transactions is supposed to go into a fund for foreign Communist Parties. An example of such transactions is the resale by Russia to Switzerland of hard lumber, originally purchased by Russia from Yugoslavia. Further, along the same line, Yugoslavia refused to sell hard lumber to Italy because of the fear that Italy would likewise resell it to Switzerland, thus entering into competition with the Soviet Union.

Document No. 002

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NO CHANGE in Class.

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Class. CHANGED TO: TS S (C)

DDA Memo 4 Apr 77

Auth: DDA ABPE 27/1/763
Approved For Release 1999/09/08 : CIA-RDP82-00457R000300650002-9

Date: 23 March 1978 By: 027

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C. Difficulties in Foreign Trade: Special efforts are being made to export to the Netherlands, because the Netherlands offers in exchange seed - which Yugoslavia needs - and electrotechnical material for the new Siemens factory in Zagreb. Exports to Czechoslovakia include copper, chemicals, and fruit. Through pacts with Czechoslovakia, the Netherlands and Poland, the volume of foreign commerce has increased considerably. Principal difficulties are the lack of export products and the prices obtained therefor at the official exchange rate. Due to this unfavorable exchange rate between the dinar and foreign currencies, Yugoslav export products are priced disproportionately high and, in retaliation, foreign countries set the prices for their own products at figures considerably above their actual value.

2. Industrial Situation:

- A. Textiles: The capacity of the textile industry in Croatia, which is the most effective of those currently in operation, amounts to about 70% of the pre-war production. However, the total cost of the goods (in terms of the resale price) produced in any given period of time at present will represent 160% of the price charged for the whole production in a similar pre-war period. The industry shows a profit of nearly 100 million dinars, although, in the opinion of source, this is not actual profit of the year's operations but rather the result of general Government orders that all industries must show a profit.
- B. Lumber: Production of the lumber industry in Croatia amounts to 35% of the pre-war output. Of this figure, 75% is being exported, and the remainder is available for the domestic market. Profits during 1946 are supposed to amount to some 80 million dinars.
- C. Electrotechnical: It is intended that next to lumber the main industry in Croatia will be the electrotechnical industry. The Siemens factory in Zagreb is being expanded to handle 700% of its pre-war capacity. The necessary buildings are being constructed, and the machinery has been ordered from Czechoslovakia. At present Siemens is building only electric motors up to 4 H.P., but in the future it is expected that the new plant will be equipped to build any type of electrical machinery and equipment. To build and finance the new factory, the Croatian Government is investing 200 million dinars, and the Central Government is appropriating 350 million dinars. (Figures are not yet definite and are still pending approval). The total planned government investment in Croatian industry for 1947 is foreseen at about 10 billion dinars. This type of information is being kept very secret, however, and the official budget may reflect an entirely different figure.

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3. Financial Situation:

- A. Budget:** A reliable appraisal of the financial situation cannot be made until all planned expenditures are approved, and the budget review is scheduled for 1 January 1947. The budget of the Federal Republic of Croatia for 1947 is foreseen as about 23 billion dinars.
- B. Taxes:** It is anticipated that the budget for Croatia for 1947 will show a deficit of some three billion dinars, which amount is supposed to be made up by a loan from the National Bank. This deficit will probably be a false reflection, however, because all government enterprises were ordered to submit financial statements showing profitable operation, whereas most of them are actually

25X1X6

Comment: The budget of the Central Government is equivalent to the combined budgets of the Federal Republics plus the administrative expenses of the Central Government and plus the expenditure of Government-sponsored enterprises under Central Government control.

By 30 September 1946 taxes collected in Croatia amounted to only 30% of estimated receipts and were collected mainly from Government enterprises, which are almost exclusively non-profit organizations.

- C. Currency Circulation:** The total figure for money in circulation in Yugoslavia amounted to 9,386,472,000 dinars on 31 October 1946. This represents an increase of three billion dinars over the figure given for 1 July 1946 and is accounted for by: (1) the decrease in government revenues due to the stoppage of sales of UNRRA goods, and (2) the decreased purchasing power of the city dwellers accompanied by the accumulation of large sums of money in the hands of the farmers, which sums are not being spent, owing to the lack of UNRRA goods and the poor quality and quantity of Yugoslav industrial products.
- D. Threat of Inflation:** Anka Berus, Finance Minister of the Croatian Federal Government, stated before a meeting of Government officials: "Danger exists in the threat of inflation, but in the opinion of the Communist Party, it will not seriously harm the national economy because of rigid price controls and the planned economy. The main danger would be that of certain persons' becoming very rich, which eventuality we must prevent at all costs."
- E. Bank Reorganization:** Effective 1 January 1947 a re-organization of the banking system will take place. Besides the National Bank, only two other banks will exist: one for investments and long-term credits, and the second for short-term credits. The central offices of these banks will be in Belgrade, and each federal republic will have a main branch, which will operate independently within the administrative framework of the federal republic. Provincial branches will be established in all communities where Area National Committees (Okruzi Narodni Odbor) are located, and, if necessary, in towns having District National

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-4-

Committees (Kotarski Narodni odbor). All banks are to be financed by the National Bank independent of the federal budget. Thus the Government expects to administer its credit system more efficiently and to check an increase in the amount of money in circulation. Depending on the success of this system, the Government hopes to limit cash transactions to those of salaries, taxes, and small-scale purchasing; while all other transactions will be effected through banking functions. One drawback to the system is the lack of trained bank personnel, according to Finance Ministry officials.

4. Agricultural Situation:

- A. Potatoes: The potato crop this year fell seriously short of the expected harvest. In all of Yugoslavia five million tons were anticipated whereas only 1,500,000 were delivered, and of these the Government purchased 570,000 tons.

25X1X6

Comment: The actual total is probably in excess of 1,500,000 tons, because farmers have withheld as much of their crops as possible.

The projected planting of potatoes for Croatia in 1947 is 154,700 hectares, with an expected harvest of 980,000 tons. The price of potatoes rises steadily; on the black market one kilogram of potatoes costs 15 to 20 dinars, and the official price was raised from 3.50 to 5 dinars. The Government tried to exchange corn for potatoes but was unsuccessful, not only because of the shortage of corn, but also because the farmers had consumed the potatoes or sold them on the black market. Potato seed requirements for all of Yugoslavia for 1947 total 580,000 tons.

- B. Corn: Due to dry weather in Croatia, the corn harvest was only 40% of the expected total, so that the whole crop totaled only 500,000 tons, which is insufficient to supply domestic needs, therefore making it necessary to import corn from Vojvodina. The projected planting of corn for Croatia in 1947 is 311,284 hectares, with an expected yield of 1,800 kilos per hectares.
- C. Industrial Basic Products: Strong emphasis is being placed on the planting of crops which represent industrial raw materials. The harvest in Croatia of these products fall far short of the expected totals for the current season:
- | | |
|--------------|--------------------------------|
| Sugar beets: | 60% below the pre-war normal |
| Hemp | : 70% below the pre-war normal |
| Sunflowers | : 40% below the pre-war normal |
| Flax | : Practically no harvest |
| Tobacco | : 20% above the pre-war normal |

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GENERAL INTELLIGENCE GROUP

25X1A2g

-5-

The most serious difficulty connected with the raising of these crops is the shortage of seed and the resistance of farmers to government contracts which require them to plant a specified acreage.

The following table indicates the projected plantings in 1947 of industrial basic commodities. ("Contracted" represents the figure assigned to all farmers collectively for planting; "Uncontracted" indicates the anticipated number of acres which will be planted on a voluntary basis):

<u>Crop</u>	<u>Contracted</u>	<u>Uncontracted</u>	<u>Planted in 1939</u>	<u>Expected Yield per Ha.</u>
Flax	3,737 Hectares	13,725 Hectares	6,779	900 kg.
Hemp	15,000 "	8,787 "	10,000	1,000 "
Soybeans	400 "	—	5,070	800 "
Castor-oil seeds	400 "	—	—	—
Chicory	1,200 "	—	—	1,300 "
Sunflowers	18,000 "	—	165	940 "
Sugar Beets	21,000 "	—	5,329	1,000 "
Tobacco	2,500 "	—	—	980 "
Poppies	—	1,013	—	440 "
Oil Beets	5,877 "	—	—	500 "
Herb (basic ingredient of insecticide)	576 "	—	—	370 "

D. Fodder: The acute shortage of fodder has made it necessary to slaughter cattle. Exact statistical data are not available because the farmers do not report them, but in all Yugoslavia only forty tons of red clover seed could be obtained. The following table shows the number of hectares planted in 1946 and the yield per hectare in Croatia for each of six fodder crops. Also indicated are the projected plantings of each crop for 1947 and the anticipated yield:

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-6-

Crop	1946		1947	
	No. Hectares Planted	Yield per Hectare	Projected Plantings (Hec.)	Expected Yield
Wheat	35,320	2,000 Kilos	39,809	3,080 Kilos
Clover	35,000	2,400 "	40,600	3,730 "
Red Clover	72,000	2,300 "	86,100	3,580 "
Hay	650,000	600 "	441,800	2,240 "
Buckwheat	2,000	500 "	1,806	720 "
Millet	8,300	1,200 "	10,200	1,620 "

6. Cereal Grains: Following figures and estimates were given on the status of grain crops in Croatia:

Grain	No. Hectares Planted 1946	Projected Plantings 1947 (Hec.)	Expected Yield
Wheat	389,000 (Yield 600 kilos per Hec. 1946)	357,253	1,000 Kilos
Oats	9,200	7,700	1,050 "
Rye	33,852	41,400	760 "
Barley	47,500	45,475	1,000 "

Purchases of wheat by the Government in Croatia for this year's harvest were estimated to total 180,000 tons, but by 16 November 1946, only 60,000 tons had been collected.

7. Other Crops:

Fruit	Total Production Croatia 1946
Plums	839,833 Quintals
Apples	430,392 "
Pears	177,373 "
Nuts	77,000 "
Cherries	106,000 "
Currants	47,000 "
Apricots	16,000 "
Peaches	65,000 "
Figs (dried)	101,000 "
Chestnuts	35,000 "
Grapes	2,581,362

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