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# *SOCIALIST BANKING: THE CONTINUOUS EVOLUTION OF THE BANKING SECTOR IN YUGOSLAVIA (1944/45–1991/92)*

*The article explores the influence of the ideological and political frameworks and changes in the physiognomy of social, economic and internal political relations, as well as the foreign policy orientation, on the structure of the banking sector in socialist Yugoslavia, The attempt is to determine the appearance and the important features of the banking sector, the sequence of reforms that marked this field of economic life in the second half of the 20th century, as well as the effectiveness of the observed changes. The overview is provided of the characteristics of the different phases that the Yugoslav banking system, starting with the development of the socialist banking system, planned organization and rigid centralization, through various phases of decentralization, central plan weakening and introduction of market elements, to the shaping (and reshaping) of the self-management banking system and its repercussions on the country's economic unity.*

**Key words:** *Banking. – Centralization. – Decentralization. – Planned economy. – Socialist market economy. – Contractual economy.*

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## 1. INTRODUCTION

The “short twentieth century”, despite being characterized as such and “shortened” by nearly a quarter by Hobsbawm Hobsbawm (2002), concentrated in itself a multitude of social, economic and political tensions and conflicts at the national, interstate and even global level. Its experience is marked by economic crises, the crumbling of institutions, social upheavals, ideological passions and conflicts generated by them, many local armed skirmishes and especially the world wars, but, at the same time, by remediation of problems, overcoming of crises, a technological breakthrough of untold proportions, building of new models of social, political and economic systems, processes of cooperation and integration. There is no doubt that both the crises and the upswings influenced certain business techniques, organizations and work mechanisms to be redefined, changed and adapted.

The impact of the world wars on institutions and politics of most states was manifold (Eloranta and Harrison 2010, 151–153), but what was specific to Yugoslavia, in addition to the immense human and material losses, was the introduction of a new, experience-wise weak, yet in terms of ideological passion and conviction in the mission, emphasized social and political system. Adding to its specificity, this system, imposed by the Communist Party of Yugoslavia (CPY), underwent radical changes in a short period of time, transforming from a copy of the Soviet model into a specific Yugoslav model which, in the political sense, maneuvered between the East and the West, and, economically, between a centrally planned and a market economy.

During the early post-war period, socioeconomic relations implied mimicking the Soviet Union (USSR) model. A socialist economy implied the almost complete abandonment of private business (minor exceptions were made in Yugoslavia in regard to services, trades and agriculture), almost the entire labor force was employed to work for various state entities and all natural resources became state-owned. The economy was planned in the sense that products and inputs (labor, capital, materials, energy, etc.) used by any company and institution were managed in accordance with the instructions of the central planning body. The plans were created, with great fanfare, for a period of one or more (usually five) years, as a means of forced accumulation and of spending the largest part of the gross domestic product (GDP) for investments and industrialization, whose ultimate goal was essentially military strengthening at the expense of people’s consumption and living standard. This is the model sought to be copied by Yugoslavia –

the first country in the East that legalized a Five-Year Plan[1] in April 1947 (Petranović 1988, 45, 76, 78, 94–95; Crouzet 2001, 248; Hanson 2003, 10–12; Berend 2009, 180, 195; Ilić 2020a, 147–150).

Barely a year after the adoption of the plan, a rift occurred between Yugoslavia and the USSR, which was soon followed by the cutting of all ties. In its first reaction, the government radicalized internal political and socioeconomic relations (Stalinization and the purge of the CPY, forced buy up and collectivization, forced exploitation of human and material resources, harsh austerity measures, etc.) so that, starting 1950, a new course began to take shape: the country's moving closer to the West, as well as new social relations defined by the country's own vision of socialism – self-management. Over the following years and decades, depending on the circumstances, the foreign policy course slightly changed direction, with phases of moving closer – to a lesser of greater extent – to the East or the West, while in principle keeping to the middle path (non-alignment policy), just as self-management was modified, but without endangering it.[2]

The circumstances of the described political, social and ideological environment influenced the creation of the banking system, its structure and business practices, as well as the operation of the central bank. Frequent changes and adaptations of the system to the requirements of the policies or the visions of the ideological creators of socioeconomic relations inevitably led to patterns of solutions based on trial-and-error learning. Seeking *one's own path* became the paradigm of socialist Yugoslavia, and the continuous transition of the social and economic system was its constant, which some economic theoreticians took pride in. The changes were seen as the expansion of the independence of labor organizations and of the democratic rights of the working class (Čolanović 1979, 13), though the leadership was concerned that not every element of the new system would be proved in practice (Kardelj 1953, 15). Its own solutions and various ideological

1 Law on the Five-Year Plan for the Development of the National Economy of the FPRY, *Official Gazette of the FPRY* 36/1947.

2 The plan was assessed as unfeasible already in January 1949 when the CPY Central Committee revised the economic policy and set more modest goals, but it was formally amended (extended until the end of 1952) only by the Law on the Prolongation of the Execution of the Law on the Five-Year Plan for the Development of the National Economy of the FPRY (*Official Gazette of the FPRY* 71/1950), on 29 December 1950. The 1948 circumstances revealed the plan's weaknesses – construction without economic calculation, unselective investment, excessive investment, etc., so further development was mainly focused on key facilities (Petranović 1988, 264).

amalgams were a feature of Yugoslavia, which was, according to Neuberger (Neuberger 1959, 361), one of the "world's most interesting economic laboratories", while the field in which the most experiments were conducted was that of money (Horvat 1970, 81).

The development Yugoslavia's economy was not conceived frontally, through the equal strengthening of all sectors and especially not freely, through independent action of economic entities, instead, certain branches of the economy were to be given advantage in phases, until the expected balance had been established, following which the next cycle would be planned. This was a model for the economy's development in relatively short investment cycles, which was to be properly designed by economic policy (Čobeljić 1959, 53–67).[3] Such dynamics, however, did not ensure the long-term stability of the system, which made it impossible to predict the business framework and the entire economy was in a state of chronic instability (Horvat 1969, 5). Therefore, the banking sector,[4] in adapting itself to the vigorous development of the economy, was almost constantly in some stage of reorganization, continuously evolving (Golijanin 1979, 116), while frequent changes contributed to decisions that were sometimes forced.

Banking and the central bank of socialist Yugoslavia have been the subject of a number of papers addressing – both broadly and narrowly – the history of the organization of the economy, finance and financial institutions, or analyzing the elements of the banking sector. The authors were mostly economists, while the historical perspective is much less prevalent, which is due not only to the poor interest of historians, but also to the inaccessibility of archival sources due to the retention period (30 years) and limited accessibly of the central bank's archives prior to the establishment of the National Bank Archive (2005).[5]

The aim of this paper is to attempt to determine – through the analysis of literature, normative acts and primary archival sources – the frequency and scope of changes in the entire banking sector of socialist Yugoslavia and especially of some of its most important pillars (the National Bank), the "longevity" of these changes, the innovations introduced into banking through the planned market relations model and, to a certain degree,

[3] Theoretical propositions in: Stojanović, Čobeljić (1966).

[4] Banking includes the banking system, banking practice and general issues related to the credit system and credit practices (Golijanin 1983, 18).

[5] *See* Vučković (1956); Ugričić (1967); Horvat (1970); Golijanin (1979; 1983); Perišin (1975); Lampe and Jackson (1982); Gaćeša (2001); Hofman (2004); Mitrović *et al.* (2004); Ilić (2021).

the effects achieved by the changes in banking. It is also the intention to determine the phases shaped by the changes in banking and their correlation with the state's economic and political trends, which would, to some extent, offer a proposal for the periodization of the Yugoslav social banking system.

## 2. CENTRALIZATION AND CONCENTRATION OF BANKING (1944/45–1954)

The first phase in the organization of the postwar banking sector is embodied in the creation of socialist banking, which included the nationalization of private banks, and the consolidation and centralization of the system. Nationalization was carried out by means of confiscation and liquidation, where the assets of private institutions were appropriated and liabilities taken over (which provided a material basis for the establishment of socialist banks)[6] and through nationalization, as the ultimate form of disempowering the private sector. Consolidation led to the establishment of a mono-banking system,[7] while centralization implied not only the concentration of decision-making powers in the center of the state and economic power, but also operation according to plan that was imposed by the law.

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[6] The State Administration for National Goods and territorial (federal republics) administrations were entrusted with the management of assets (commercial, industrial, construction, banking and other companies placed under state control). Confiscated and sequestered assets were handed over for administration to the appropriate federal and republic ministries (Petranović 1988, 86). Based on the Decree on the Revision of Licenses and Liquidation of Private Credit Enterprises (*Official Gazette of the FPRY* 51/1946), the operating licenses of private banks first underwent revision. In this process, all the banks already in liquidation, the banks to which the finance minister would not issue a new operating license, as well as all banking and insurance operations of private credit companies that also engaged in other activities, were selected for liquidation.

[7] A monobanking or *one-level* banking usually (but not necessarily) means that there is one bank in a country, i.e., a central bank, which also takes over all commercial banking operations. Thus, in addition to the monopoly on issuing money, it also has a monopoly on all banking and foreign exchange operations. This, however, does not rule out the existence of other financial organizations which, in conditions of a planned economy, concentrate certain specialized banking activities, such as all savings, investments, financing of agriculture, foreign trade crediting, etc. The key feature of monobanking is the crucial role of the state planning body (Sherif, Borish, Gross 2003, 13–14; Eichengreen 2007, 134; Moiseev 2015, 66–67).

In conditions of the USSR's political supremacy, when private businesses throughout the East were mainly declared illegal, and the rights of individuals to produce for the market were restricted, commercial banks were replaced by the Soviet *one-level* banking, consisting of so called monobanks with a specialized function, stock exchanges were closed, and the practice of financial reporting was modified to suit the needs of the bureaucracy (Eichengreen 2007, 134). Yugoslavia went through a similar phase, but the dynamics of its further development made it different from the primary model.[8]

Increased state control and nationalization (etatization) of the National Bank were carried out even before the Second World War (Kršev 2008). The Bank did, however, remain a joint stock company with protected private shareholders' interest. In addition to the National Bank, which enjoyed a special, privileged status, the prewar banking network of the Kingdom of Yugoslavia also included two other privileged banks (Craftsmen's Bank and Agrarian Bank), two state banks (Mortgage Bank and Postal Savings Bank), 61 self-management banks (mostly municipal savings banks), and over 700 private banks (Tatić 1989, 94).

The last stage of the war and the early post-war period were marked by the presence of some of the old state, semi-state and private banks and savings banks, as well as elements of the monetary and banking systems established during the war, whose tone was set by the occupation, puppet and quisling regimes and their central banks.[9] Issuers of securities of the new authorities also emerged: the Monetary Institute of Slovenia, which, starting March 1944, issued vouchers, and the partisan government (the Finance Commission of the National Committee for the Liberation of Yugoslavia, NCLY), which issued dinars printed in Moscow and exchanged them for occupation money

8 Authors differ in their interpretation of how long Yugoslav banking was in the monobanking phase. Huszti (Huszti 1981, 71, 73) does not consider the Yugoslav banking system as being one-level already in the early 1960s, while Sherif, Borish and Gross (2003, 13–14) consider that, despite the many experiments, the monobanking system lasted until 1971, while in the countries of the East it remained largely in force until the collapse of the socialist systems.

9 During the war, there were seven active economic regions whose monetary systems were established by: the Germany's Reichsbank, the Bank of Italy, the Hungarian National Bank, the Bulgarian National Bank, the National Bank of Albania, the Serbian National Bank, and the Croatian State Bank.

from April to end of June 1945,[10] as well as new socialist banks, founded with the property and staff of the nationalized banks and the central bank.[11]

Socialist banks were set up concurrently with the liquidation of the old ones. Following the Monetary Institute, founded in the first half of 1954 for the purpose of crediting and servicing payment operations, were the Commercial Bank of Serbia, the Commercial Bank of Vojvodina (soon after merged with the bank of Serbia), Land (i.e. regional) Bank for Croatia, the Commercial Bank of Bosnia and Herzegovina, the Macedonian Commercial Bank, and the Commercial Bank of Montenegro.[12] Operating at the same time in London was the National Bank of the Kingdom of Yugoslavia which, in November 1945, transferred authority to the new government (Vučković 1956, 420–421, 436; Neuberger 1959, 361; Mitrović *et al*. 2004, 84–92, 151–170; Hadži-Pešić 1995, 7, 13; Hofmann 2004, 27–28; Ilić 2020a, 89–90).[13]

After the war, seven financial organizations (with 45 branches) continued to operate, which, under the Law on the Organization and Operation of the Credit System of 26 October 1945 (*Official Gazette of the DFY* 87/1945), were

10 Law on Withdrawal and Replacement of Occupation Banknotes, *Official Gazette of the Democratic Federal Yugoslavia (DFY)* 20/1945; Law on the Exchange Rates for the Withdrawal of Occupation Banknotes and the Settlement of Obligations, *Official Gazette of the DFY* 23/1945; Law on the Exchange Rates for the Withdrawal of Occupation Banknotes and the Settlement of Obligations in the Territory of Croatia, *Official Gazette of the DFY* 44/1945.

11 For an example of the assignment of the National Bank staff to the Commercial Bank of Serbia, see: National Bank Archive (ANB), National Bank of Yugoslavia 1945–1992 (1/III), Organs (ORG), Book of Minutes from Management Board sittings 1945–1946, Minutes from the first sitting, 14 February 1945.

12 On the founding and beginning of operations of the land (i.e., regional) commercial banks and the Industrial Bank see: ANB, 1/III, Historical Archive, folders 372, 373.

13 ANB, 1/III, Historical Archive, folder (f.) 372, Status of the National Bank, confidentially VII No. 275, 19 December 1945. Looking to confirm continuity and thus establish business relations with foreign countries and unblock Yugoslavia's claims against foreign correspondent banks, in the early months the new authorities did not encroach on the legal form of the National Bank, which formally had the status of a joint stock company and was under the "administration" of the governor in London, Dobrivoje Lazarević (by decree of the king's regents, merchant Tanasije Zdravković was appointed to his place on 27 November 1945). Even though the prewar Law on the National Bank had not been repealed, the essence of the institution was gradually changed by adopting bylaws and was fully legally redefined in 1946.

federal (pan-Yugoslav) by nature: the National Bank,[14] the State Mortgage Bank, the Privileged Agrarian Bank,[15] the Savings Bank, the Craftsmen's Bank, and the State Insurance and Reinsurance Institute. At the same time, the six aforementioned republic commercial crediting institutes[16] were founded using the assets of the former National Bank branches and certain private banks, while the State Industrial Bank of Yugoslavia (also with federal status[17]) was founded on 12 May 1945, using the capital of the General Yugoslav Banking Corporation (Bankverein), as shown by Aleksić (2002; 2021), which was fully in the service of the occupying forces during the war, and loans at the disposal of the State Administration for National Goods (DUND).

Sixty-one savings banks also continued to operate, mainly as local credit companies, but their relatively large number led to different crediting terms, impeded the creation of a single liquidity stock and hindered planning due to poor record-keeping and control. In order to switch to stronger centralization, decrees were passed on 25 September 1946, stipulating the buying up (nationalization) of the shares of semi-state federal banks (the National Bank, the Industrial Bank, the Craftsmen's Bank, and the Cooperative and

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14 A Law of 15 January 1946 amended the law on the National Bank of the Kingdom of Yugoslavia from 1930 and 1940, and the name National Bank of the FPRY was introduced (*Official Gazette of the FPRY* 6/1946).

15 Under the Law on the Organization and Operation of the Crediting System of 26 October 1945, it was declared a federal credit institution and renamed Cooperative and Agricultural Bank. AJ, Ministry of Finance of the FPRY (12), f. 566, Audit Report of the Cooperative and Agricultural Bank. Gnjatović (2011) wrote about the nationalization of this bank.

16 ANB, 1/III, Historical Archive, f. 373, the abolishment of National Bank branches and handover to the republic banks and the Industrial Bank (1945); ANB, 1/III, Analyses and Research (AIS), f. 123. Some private banks were actually confiscated, using the term *liquidate*. For example, under the Decision on the Liquidation of Danube Bank in Belgrade and Transfer of its Property to the Commercial Bank of Serbia (*Official Gazette of the DFY* 27/1945), the Danube Bank was placed in liquidation, with all its assets (assets and liabilities) being transferred to the Commercial Bank of Serbia. However, the legal ground was a decision of the Anti-Fascist Council for the National Liberation of Yugoslavia (AVNOJ) on the transfer of enemy property to the state. On the other hand, certain banks were placed liquidation and their assets were transferred to state banks without citing any legal basis, such as in the case of the Saving Bank of the Danube Banovina (Decision on the Liquidation of the Saving Bank of the Danube Banovina in Novi Sad, *Official Gazette of the DFY* 55/1945).

17 Decision on the Founding of the State Industrial Bank, Belgrade, *Official Gazette of the DFY* 33/1945. For more on the operations of the All-Yugoslav Banking Society during the Second World War and plunder of Jewish property see: Aleksić 2021, 355–372.

Agricultural Bank) and ordering the merging of the republics' loan institutes and federal banks (including the Postal Savings Bank) with the National Bank of the FPRY, within a short period of time.[18] The State Mortgage Bank (the then State Investment Bank – SIB) was exempt from the fusion, thus at the beginning of 1947, there were two state banks (the National Bank and the SIB) operating in the country, along with some twenty or so local savings banks, mainly in Slovenia. Such a state was not a result of the banking sector's independent development and the economy's requirements, but rather a product of the CPY Central Committee Politburo meeting on 22 September 1946, at which it was assessed that the existing system of banks copied the capitalist model and that changes were needed, so centralization was strengthened by setting up two large organizations – the National Bank (with head offices in every republic), which was, in addition to its money-issuing function, also tasked with short-term loans, and the SIB, for long-term and investment loans (Vučković 1956, 437; Golijanin 1979, 118–119; Perak 1981, 32; Petranović 1995, 171–172, 179–180; Hofmann 2004, 29–30; Ilić 2021, 140).

In spite of the fact that the Yugoslav banking system's activities were restricted to collecting savings and lending mostly to private real sector,[19] the private sector barely survived the first years of communist rule, and it was eradicated by 1947 (Horvat 1970, 81; Lampe, Jackson 1982, 553–554). The new government immediately placed under its control the existing 819 banks that operated at the end of the war and, based on the AVNOJ decisions of November 1944 and provisions of the Law on Confiscation (*Official Gazette of the DFY* 40/1945), 95 banks were soon confiscated, and 720 banks were liquidated by 1947, in line with the Decree on the Revision of Licenses and Liquidation of Private Credit Enterprises and its amendments

[18] Decree on the buy up of shares of the National Bank of the FPRY, the Industrial Bank of Yugoslavia, the Craftsmen's Bank of the FPRY, Cooperative and Agricultural Bank of the FPRY and Decree on merging credit companies in the state sector, *Official Gazette of the FPRY* 78/1946. On the shares of the National Bank and federal credit companies see: ANB, 1/III, Historical Archive, f. 374. and f. 375. On the merger of commercial republic banks, the Industrial Bank, the Postal Savings Bank, the Craftsmen's Bank, the Cooperative and Agricultural Bank, and the Commercial Bank for Istria: (1946–1947): ANB, 1/III, Historical Archive, f. 399–407; ANB, 1/III, AIS, f. 66. Pursuant to the decree on the merger of credit companies, the names of the republic credit companies were supplemented to include the name of the National Bank of the FPRY head office for the given republic, and the National Bank of the FPRY– Main Head Office in Belgrade. The National Bank branches were subordinate to the republic head offices, while the Main Head Office, the republic head offices and branches comprised a single business, administrative, accounting entity.

[19] On the private sector see Arts. 28–31 of the Law on the Organization and Operation of the Credit System, *Official Gazette of the DFY* 87/1945.

and supplements (*Official Gazette of the FPRY* 51/1946, 44/1947, 96/1947). As a consequence of the shutting down of private banks, the financial center relocated from Zagreb to Belgrade. By decision of the Finance Minister of 11 November 1946, four *active* private banks from Belgrade – the Export Bank, the Adriatic-Danubian Bank, The Belgrade Merchant Bank, and the Belgrade Cooperative – were merged into the Yugoslav Export and Credit Bank, only for it to also be nationalized on 30 November 1948 (Vučković 1956, 436; Golijanin 1979, 117; 1983, 41; Lampe, Jackson 1982, 553–554; Pijevac, Milošević, Boričić 2000, 190–199; Ilić 2021, 141).

The nationalization of the companies of statewide and republic importance, which also included banks and insurance companies, was carried out in December 1946.[20] It was a preparatory step for the introduction of planned economy and it established administrative monopoly and state intervention in all areas of economic as well as social life. There was strong concentration of authority in the state apparatus and state bodies gained the power to intervene "using political means and the force of revolutionary pressure in the economy and in the sector of socioeconomic relations" (Marjanović *et al*. 1968, 247–248), which is an indicator that the party and the state had almost entirely merged.

The dissolution of previous economic relations and the creation of a starting point for building socialist practices in the domain of money, as well for the establishment of the country's economic unity, began already during the monetary reform and the exchange of occupation money, although, due to a huge spike in prices, the first results were quite devastating (Ilić 2020b). Further socialist relations went in the direction of creating a single liquidity stock (as a financial basis for economic reconstruction and construction and for the introduction of planned economy), centralizing internal payment operations, and full control of the money in circulation, which was achieved by the Decree on Merging Credit Companies in the State Sector of 25 September 1946.[21] A single payment operations system was established under the auspices of the National Bank, the responsibility for budget execution was transferred from the state financial bodies to the National Bank, all cash flows in the country were integrated, a general credit plan was created, and the concentration of banks, savings institutions and insurance companies

[20] Law on the Nationalization of Private Economic Enterprises, *Official Gazette of the FPRY* 98/1946. The nationalization of all remaining credit and insurance companies, as well as that of all other private companies of lesser and local importance, was completed by amendments to the same law, in April 1948 (*Official Gazette of the FPRY* 35/1948).

[21] *Official Gazette of the FPRY* 78/1946.

was initiated (Vučković 1956, 420–423). The centralized payment operations and the introduction of cashless payments[22] enabled significant savings and broadened the possibilities for controlling cash flows. An important new function assigned to the National Bank involved short-term lending to the economy. For the sake of a more efficient coordination of activities, in early 1947 the National Bank began collecting (through competent state bodies) information on companies and authorized persons.[23] Still, certain non-economic measures copied from Soviet experiences, such as automatic invoice collection (1947–1951), which featured the sellers' disregard for the buyers' solvency, which caused market disruptions and changed "the rules of the game", and led to the introduction of new solutions (it was only in 1951 that automatic payment was replaced by the contract based voluntarily of payment). In time, a system for controlling the use of cash was established, first through the so-called cash plan, territorially conceived credit plans, buy up, trade, wages, budget expenditures, etc., based on the principle of costs and on the balance sheet principle, which enabled the monitoring of the effective amount of money in circulation, at least until the economic reforms of 1952 and the abandonment of this system (Vučković 1956, 423–425; Petrović 1954, 104–122).[24]

Following its nationalization, the National Bank became a state bank in the true sense of the word, which also meant that over the following decades, as a higher planning body, it would be used to exerted influence on the execution of plans of the socialist economy and financing, and on the setting of financial policy principles.[25] However, in spite of the proclaimed

[22] AJ, FPRY Ministry of Industry (17)-114–115, Daily press review, 23 December 1946; ANB-18, f. 1, M. Ugričić, *National Bank payment operations with regard to special banks* (manuscript).

[23] AJ, Ministry of Electric Power Industry (11)-9–34, National Bank memo to the Federal Electric Power Industry General Directorate, No. 1923, 4 February 1947.

[24] At the end of 1947 the National Bank focused its attention on regulating issues related to payment operations: AJ, Ministry of Agriculture and Forestry (4)-62–439, No. 38944/I, 5 November 1947; AJ, Central Directorate of the Federal Motor Industry (108)-3–11, writ of the Head Office for PR Serbia, 25 August 1949. On the problems related to the "cash plan" see: AJ-108–17–30, acts 11377, 21 August 1949, and 11551, 8 August 1949.

[25] Until the end of the socialist period, the National Bank continued to have close ties with the state and remained its instrument. Given the specific personal and real union between the state and the CPY/League of Communists of Yugoslavia (LCY), the party set the main tone for the National Bank's policy. Prior to new regulations and courses in the development of banking being discussed in professional circles, in public or in parliament on, matters were discussed in the economic policy commissions of the LCY Central Committee Presidency, which did not necessarily ignore the role of National Bank experts, whose analyses, methodology and

monolith stance and the illusion of the incontestability of the ultimate goal of social development, the path through the Yugoslav social and economic experiment was not one-way, nor was it devoid of straying and of the adoption of feasible as opposed to desirable solutions.[26]

The concentration of power gave the National Bank a wide range of tasks and powers. It took over the all working capital loans to all branches of the economy; acting as a business deposit bank it collected available funds belonging to the people and economy and approved consumer loans; it took over from the Finance Ministry the money-issuance function (until then all banknotes were issued by the state); it was entrusted with the tasks of cash and accounting execution of the budget and the foreign exchange control service; it became a statistics authority and was in charge of the organization and execution of payment operations in the country and abroad.[27] Thus, from its usual "the bank of banks" role, it came into direct contact with the economy and expanded its branch network to almost every town in

projections, as leading economic system ideologists Vladimir Bakarić stated, were not doubted. AJ, Central Committee of the League of Communists of Yugoslavia (507), XXIV G-k. 4/2, 8 December 1975; XXIV A-k-6/1, 6 October 1969; XXIV A-k-6/3, 29 January 1970; XXIV A-k-6/4, 6 February 1970.

[26] Original background provided in: ANB, Legacy of Miodrag Ugričić (18), f 1, *Banking in FPR Yugoslavia* and *From a Banks' Bank to an Objectified Body of the Society* manuscripts (6 October 1952); ANB 1/III, ORG, minutes from sittings, management decisions, etc.

[27] In September 1945, under the provisions of the Foreign Exchange Law (*Official Gazette of the DFY* 68/1945), competencies regarding foreign payments were divided between this Ministry's Banking and Currency Department, the Foreign Trade Administration, and the National Bank, although they were controlled by the Finance Ministry. In order to simplify payment operations with foreign countries, it was necessary to centralize them and to ensure regular reporting. However, due to the blockade of the East, the changes did not take place until 1952, when the parity of the dinar against gold and the dollar was changed (from 50 to 300 dinars for 1 dollar), the planning of imports and exports by volume and structure was abolished and free exchange within the bounds of the defined balance of payments was introduced (import-export licenses were abolished), while the acquired foreign currency was not handed over in its entirety to the National Bank for buy up, with a part of it retained by exporters. A non-market innovation was also introduced – coefficients (application of multiple exchange rates that were to prevent exporters benefiting from the disparity between domestic and foreign prices, which long remained an instrument of the foreign trade policy. (Vučković 1956, 425–426). AJ, Black Metallurgy Head Administration (106)-101–128, Submission of applications for the purchase of foreign exchange, 11 March 1947; AJ, 11–9–34, No. 9385, 20 June 1946; AJ, 12, d. 583, f. 140, 2 December 1949. and f. 901, Issues related to payment operations with foreign countries, 30 January 1950; ANB-1/III, Historical Archive, f. 389, National Bank report for 1953. On financial interventions in the economy through the financing of an increase in the working capital of companies, see: AJ, 106–106, Correspondence with the NBY, 1947.

the country, while the SIB, as a specialized bank, took over the long-term operations of fused banks (Vučković 1956, 437; Golijanin 1979, 118–119; 1983, 43; Ilić 2021, 141–142).[28]

However, the process of consolidation was temporarily interrupted already in 1948. Decrees of 14 August 1948[29] enabled the establishment of state banks for crediting agricultural cooperatives (in the territories of the republics) and communal banks and local savings banks. Communal banks were founded in almost all major centers and started issuing loans for municipal public utilities, companies and citizens, based on the money of the local economy, socio-political organizations and people, while traditional savings operation[30] developed in Slovenia. However, these banks exhibited a lack of financial discipline, engaged in unplanned lending to the local economy, and completely illegal lending to people's committees, which resulted in their over-indebtedness to the National Bank and in an increase in money circulation (Ugričić 1967, 167–168). At the same time, the National Bank was given a role in the drafting of the cash plan as a monetary instrument of the economic plan (1948) and the credit plan,[31] which included the planning of the total mass of loans and all sources of funding, while, due to the external circumstances, all international payment operations were transferred to it (1949) (Vučković 1956, 437–438; Neuberger 1959, 362; Golijanin 1979, 119; Hofmann 2004, 65–72).[32]

[28] Since the development of investment facilities was mostly financed from non-refundable budget funds, the SIB was entrusted with the operations and controlling the earmarked utilisation of funds. In addition, the SIB was also tasked with performing services related to domestic state loans, conversion of pre-war domestic debts, etc. For this reason the network of SIB branches increased from 17 to 31 (Vučković 1956, 437; Golijanin 1979, 119). On SIB see: ANB, 1/III, Historical Archive, f. 375.

[29] Basic Decree on State Banks for Lending to Agricultural Cooperatives, Decree on Communal Banks and Local Savings Banks, *Official Gazette of the FPRY* 71/1948.

[30] As many as 89 communal banks had been founded by May 1949, and almost all the existing city savings banks were transformed into communal banks. ANB, 1/III, Historical Archive, f. 377, Founding of communal banks, 1948.

[31] For the correspondence, regulations, plans, execution, and other material related to the credit plan see: ANB, 1/III, AIS, f. 66.

[32] During the centralization phase the National Bank gained some competencies regarded as atypical for a central bank, such as lending to companies, executing investments and payment operations with foreign countries. ANB, 18, f. 1, Banking in the FPR of Yugoslavia manuscript; AJ, Economic Council of the FPRY (40)-35–80, National Bank of the FPRY (analysis), 27 April 1951 and Principles of the reorganization of the banking apparatus [1950]. The effects of the reforms were analyzed and the plans for the reorganization of the banking sector and credit

The partial deconcentration of the banking system was short-lived and already in 1952, contrary to the decentralization motto, banking was fully centralized. Prior to the changes, the banking system consisted of the National Bank with 437 central offices, branches and other business facilities, 31 SIB branch offices, 57 communal banks (there were 85 in July 1949), 49 state banks for loans to agricultural cooperatives, and 8 local savings banks (a total of 582). Pursuant to the government decision of 20 March 1952, all communal banks were abolished (with the exception of savings banks), while the SIB and state banks for loans to agricultural cooperatives were merged with the National Bank,[33] and consequently Yugoslavia's entire banking rested in its hands (there were 459 National Bank branch offices at the end of 1952 and another three were founded in 1953). In addition to becoming a "universal bank", in Ugričić (1967, 168), opinion, the National Bank also gained the function of social record-keeping and control (Vučković 1956, 438–439; Neuberger 1959, 362–363;[34] Ugričić 1967, 168–169; Hofmann 2004, 83–84; Ilić 2021, 142).[35]

The centralist development phase was concluded with the complete concentration of banking activities, which chronologically corresponds to the rise in political liberalism and the establishment of Yugoslavia's security following the enormous pressure from the East. It was a phase of rich internal dynamics and turbulence, which is evident from the legislation. By the end of 1952, there were more than 200 federal regulations governing some of the banking elements and credit issues (that's not counting the regulations on general economic issues), and as many as twenty or so[36] that directly influenced the structure, organization and functioning of the National Bank, federal banks and the banking sector, while changes were often extensive.

system were highlighted at a conference of the National Bank governor and management, 19–20 June 1948. ANB, 1/III, ORG, Minutes from the governor's meetings with general directors of head offices 1948–1953.

33 Decision on Merging the State Investment Bank of the FPRY and state banks for loans to agricultural cooperatives with the National Bank of the FPRY and on abolishing communal banks, *Official Gazette of the FPRY* 15/1952.

34 Neuberger believes that this situation "represents a rare opportunity to study the 'one big bank' model of economic theory in actual operation" (Neuberger 1959, 362).

35 ANB, 1/III, Historical Archive, f. 378.

36 The banking sector was changed through laws, decrees, resolutions, orders, and decisions (*Official Gazette of the DFY* 4/1945, 7/1945, 9/1945, 33/1945, 87/1945; *Official Gazette of the FNRYJ* 6/1946, 14/1946, 68/1946, 78/1946, 24/1947, 26/1947, 39/1947, 93/1947, 71/1948, 100/1948, 98/1949, 103/1949, 22/1951, 15/1952).

## 3. THE COURSE OF THE DECENTRALIZATION (1954–1965)

The decentralization implied a changed legal framework for planning. The modified planned economy was no longer embedded into the *plan* enforced by the law, but into the *social plan*, i.e., a more elastic plan of basic proportions – first an annual one (established by the law only twice)[37] only to then be made official as the annual *federal social plan* (1954).[38] Starting in the mid-1950s and for the following decade, there were annual federal social plans or social plans,[39] while a five-year planning period was again introduced, in parallel, starting 1957, only this time in the form of a *social plan for the economic development of Yugoslavia*.[40] Finally, in the mid-1980s, a new form of social planning was unveiled – the Long-term social plan for Yugoslavia for the period 1986–2000 (*Official Gazette of the SFRY* 39/1985), however, the state had disintegrated long before the final date of the plan. As noted by Čalić (2013, 238–239), instead of the strictly defined goals of the First Five-Year Plan from the self-management phase, the introduced social plans only provided a general orientational framework,[41] while, after 1952, the new economic system introduced the principle of entrepreneurial risk and certain competition rules.[42]

[37] Law on the Social Plan of the FPRY for 1952 and Law on the Social Plan of the FPRY for 1953, *Official Gazette of the FPRY* 17/1952, 62/1952.

[38] Federal social plan for 1954, *Official Gazette of the FPRY* 13/1954, 57/1954 – amended.

[39] *Official Gazette of the FPRY* 14/1956, 54/1956, 54/1957, 50/1958, 52/1959, 53/1960, 52/1961; *Official Gazette of the SFRY* 52/1963, 5/1965.

[40] Gradually dropped was first the word *economic,* followed by the word *development*, so only *Social Plan of Yugoslavia* remained. Social plans were made for the following periods: 1957–1961, 1961–1965, 1966–1970, 1971–1975, 1976–1980, 1981–1985 and 1986–1990 (*Official Gazette of the FPRY* 53/1957, 53/1960; *Official Gazette of the SFRY* 28/1966, 35/1972, 71/1973 – amended, 33/1976, 17/1981, 75/1985).

[41] Social plans were far more elastic than plans regulated by the law. They laid out the results of the previous period, with corresponding statistics, state general economic and political goals, provided framework guidelines for economic development with only growth predictions, gave a framework plan for distribution, predicted investment volume, personal consumption and the social standard, etc. Social plans were dominated by the words "it is predicted" and "it is expected", while the presented figures were mostly conditional and expressed in percentages and in the form of indices.

[42] The basis of the new economic system was the harmonization of the plan and the market instruments, with a powerful party in power. The plan defined the macroeconomic policy (tax policy, interest rates, foreign exchange rate, money issue, control of inflation), whereas the market was expected to influence prices and greater freedom of economic initiative, as well as to determine the responsibility of

Discussions on reorganizing the banking system and on setting up special banks[43] began already in 1953. It had turned out that consolidation had not yielded the expected results, thus, the process of narrowing the scope of the National Bank activities and of the decentralization of banking was soon launched. This was done under the veil of decentralization, formally with the aim of founding independent communal (municipal) banks where local authorities would have greater influence, for the purpose of financial support to companies (labor collectives), which were increasingly gaining independence, and for the purpose of regulating relations between banks by means of economic instruments, (Ugričić 1967, 169–170). The Decree on Banks and Savings Banks of 26 January 1954 once again enabled the founding of (district and city) communal banks, local savings banks, as well as cooperative savings banks, and left the possibility open to establish other banks by a decision of the federal government, which opened the door to the establishment of a multi-bank system, while under the Decree on Loans for Investments in Agriculture and the Decree on Loans for Working Capital and other Short-Term Loans, the National Bank remained the main creditor of the economy, but not of the communal banks, which could operate solely on the basis of collected funds.[44]

Further development of the multi-bank system followed in 1955 as a response to the reorganization of the municipalities and districts,[45] which were to be enabled to carry out a local economic and credit policy. At the

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work organizations. The division was to make the most of both systems in order to efficiently utilize the modest resources. However, the system was frequently disrupted by state and political interventions and price control (Piljak 2013, 226).

43 ANB, 1/III, ORG, Minutes from the governor's meetings with general directors of head offices 1948–1953 (minutes of 9 June 1953); ANB, 1/III, Historical Archive, f. 379. Theoretical and program papers by economic (financial) experts on the further development of banking in the FPRY in the 1950s were published by the following journals: *Finansije – Časopis za teoriju i praksu iz oblasti finansija* [Finance – a magazine for the theory and practice in the field of finance] (Belgrade), *Glasnik Narodne banke FNRJ – Časopis za pitanja bankarstva* [Gazette of the National Bank of the FPRY – Magazine for banking issues] (Belgrade), *Ekonomska politika – Nedeljni privredni list* [Economic policy – Weekly economic paper] (Belgrade), *Sveopći privredni list u FNRJ* [General economic paper in the FPRY] (Zagreb), *Ekonomist – Organ Društva ekonomista Srbije* [Economist – a body of the Association of Economists of Serbia] (Belgrade), etc.

44 All three decrees in: *Official Gazette of the FPRY* 4/1954.

45 In line with the General Law on the Organization of Municipalities and Districts, a municipality was conceived as a self-management commune, i.e. "a basic political and territorial organization of self-managing working people and a basic socioeconomic community of the residents of their area" (*Official Gazette of the FPRY* 26/1955).

same time, in conditions of commodity production and the operations of moderated market mechanisms,[46] the credit function of banks needed to be redefined, so loan assessment was not to be done automatically, but individually. Such a credit function was better suited by a territorially decentralized structure (a communal banks system), but also by one that would include specialized organizations. To that end, on the basis of decrees passed between January 1954 and mid-1955, the scope of operations and the network of communal and cooperative banks was expanded, and federal specialized banks were established – the Yugoslav Bank for Foreign Trade (YBFT), the Yugoslav Agricultural Bank (YAB), and the Yugoslav Investment Bank (YIB) – which gradually took over the job of granting loans to the economy (Ugričić 1967, 170–171).

The system established by 1955 was an original solution. The Yugoslav authorities believed that the new credit and money market was free and that it was proof of the debureaucratization of entire economic life (Popović 1954, 16–17). The new system included a central bank (which was not only a bank of banks, but still a creditor of major economic organizations, bodies and organizations of the federation, republics and autonomous units and an international payment operations agent), specialized banks for certain branches of the economy, communal banks tasked with working with local economies, cooperative savings banks for the cooperative sector, and local (city) savings banks tasked with lending to citizens from funds collected through personal savings. Internal payment operations were performed by all banks with accounting done by the National Bank (until 1959 when the central bank was entrusted with fully carrying out the operations of the new Social Accounting Service, SAS, with only a few exceptions).[47] Execution of the budget and loans of the federal state, republics, autonomies and local administrations was entrusted to the National Bank and communal banks, depending on territorial jurisdiction. Investment funds were entrusted to the YIB and communal banks, while the National Bank, communal banks and savings banks collected savings deposits (it was for this reasons that the

[46] Already in the first half of the 1950s certain economists drew attention to the need to introduce a freer market (Čobeljić, Mihailović and Đurović 1954, 31–70).

[47] Law on Social Accounting, *Official Gazette of the FPRY* 43/1959. The new payment operations body was tasked with record-keeping and control of the use and disposal of social funds, keeping records of developments in the economy and control of the fulfillment of obligations of users of social assets to the social community, as well as with conducting certain passive and neutral banking operations (maintaining giro accounts, organizing and performing payment transactions), but not the active ones (approving loans).

Postal Savings Bank was founded in early 1961). This development led to a significant increase in the number of bank branch offices (Ugričić 1967, 171; Perak 1981, 32).[48]

The banking system, which developed in this manner in the second half of the 1950s, was legalized in 1961 by the legislation on banks and on crediting and other banking activities (*Official Gazette of the FPRY* 10/1961). However, these regulations opened new avenues for the development of the banking system. It was defined that crediting and banking activities were to be carried out by the National Bank of the FPRY (as the bank of issue) and business banks, which included the three specialized banks (YIB, YAB and YBFT, with the possibility of founding new ones), by the existing communal banks, as well as by the new commercial banks of the republics and autonomous provinces (which were established under republic and provincial laws), while savings banks were incorporated into communal banks. The National Bank was no longer a direct creditor of the economy, but rather carried out this activity by way of the republic and provincial banks. It also assumed all internal payment operations and – of the activities regarded as atypical for a central bank – it continued crediting the military industry, the federal bodies and organizations and commodity reserves. The new regulations established the principle of territoriality for the republic, provincial and communal banks, in other words, the possibility of crediting clients only in their area (Ugričić 1967, 172–174; Mitrović *et al*. 2004, 197).[49]

The system established in 1961 was interrupted already in June 1962, when the plenum of the Central Committee of the League of Communists of Yugoslavia concluded that the numerous changes in the banking sector were among the causes of the economic slowdown. New "thorough" changes, which were to modernize the banking system and reduce the interference of political factors in the investment and crediting policy, were recommended as a *remedy*. The first change, which occurred already in July 1962, was the adoption of the Law on Amendments and Supplements to the Law on Social Accounting (*Official Gazette of the FPRY* 30/1962) under which the SAS, as an organizational unit, was reorganized into an independent organization attached to the National Bank, in the main and republic head offices, and just three years later, in line with the new amendments and supplements, it became fully independent (*Official Gazette of the SFRY* 12/1965). The investment initiatives and decision-making of specialized banks was decentralized in the course of 1963 by transferring a part of the responsibility

[48] On the establishment of the National Bank and organization of banking in Yugoslavia up to 1960 see also: ANB, 1/III, Historical Archive, f. 397–398.

[49] ANB, 1/III, ORG, f. 14, Minutes from management sittings, 1961–1962.

from the federal state to the republics (republic head offices of the YIB and the YAB were abolished, activities were transferred to republic banks). The so-called “right to money”, which was a source of great future difficulties, was established that same year. This was a practice according to which the main instrument for regulating of the credit potential of business banks was the predetermined credit volume and purpose, rather than the level of liquidity, which transformed money from an economic category (commodity with a price) into a non-economic category, i.e., a commodity that serves to achieve previously set goals (Ugričić 1967, 174–176; Mitrović *et al*. 2004, 195–197).[50]

Even after the abolishment of the central-planning directives that defined the overall allocation of resources, in the early 1950s the state continued making many investment decisions, appropriating most of the income of companies and controlling the banking system.[51] However, following the economic boom in the 1950s, industrial growth in Yugoslavia slowed down considerably in the early 1960s, and in March 1961 the federal parliament decided to abolish the last remnants of state control and to transfer to the companies the right to disposal of profits. It was believed that it was in the interest of workers, whose companies increasingly directed the market forces, to increase productivity. However, contrary to the expectations of economic system creators, instead of reinvesting the profit, they used it for their own consumption. Workers were more interested in the short-term increase of their own consumption than in hazy goals for the future and living beyond one’s means led to a growing trade deficit and to the decline of production (Lampe, Jackson 1982, 577; Eichengreen 2007, 152–153; Čalić 2013, 280–281).

Disruptions in economic developments led to discussions among the republics on the allocations of resources, market liberalization, monetary control and banking sector reform. Two opposing forces emerged: the wealthier republics (Slovenia and Croatia) demanded the strengthening of the republics at the expense of the federation and more internal competition,

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50 Changes in field of crediting were initiated by Governor Nikola Miljanić. The National Bank’s credit relationship with commercial banks had the form of a framework liquidity credit that the bank used to regulate credit potential in line with the stipulated credit terms and purposes, with regular revisions (first quarterly, then semi-annual). One of the instruments of credit regulation was the defining of types, conditions for approval and purposes of short-term loans, which were clearly defined in advance, while the credit itself was linked to certain “objective” criteria, such as trade (Hofmann 2004, 141).

51 On the elements of control formally or informally carried out by the state and the ruling party see: Cvikić, Žebec Šilj 2018.

while Serbia insisted on greater state control for the sake of a more efficient economic policy and encouragement of the development of poor areas. At a rally in Split in May 1962, Josip Broz Tito reacted sharply to the challenges of nationalism and separatism on the one hand, and to those of unitarism and statism on the other. Nevertheless, the trend of further political federalization and economic liberalization continued, especially after the 8th Congress of the LCY, in December 1964 (Čalić 2013, 281–282).

The beginning of the reform process in 1965 was an important turning point in the further development of Yugoslavia's economy, but it also had implications in social developments. This was when the so-called *socialist market economy*[52] was created, a phenomenon which, although semantically and logically an oxymoron, actually stands for an economic system different from any other and is, therefore, an extremely interesting topic for study and analyses.

## 4. SOCIALIST MARKET BANKING (1965–1991/92)

The practice of self-management led, among other things, to the companies operating in moderate market conditions and their departure from the plan logic. In a wave of reforms starting 1965, prices were additionally liberalized (almost half of them were formed by the market) and attempts were made at limited liberalization of foreign trade.[53] Citing Włodzimierz Brus,[54] Berend states that central planning had become obsolete, while the most important accomplishment of the reform was the reorganizing of the banking system, "commercial banks were opened, and the national bank became the central

[52] Horvat was very critical on this issue. He referred to the fact that work on the long-term program for economic development, which began in 1958, was never completed, thus that proper medium-term planning was not possible. This is the reason why economic organizations were not capable of creating development programs, therefore, instead of a planned market economy, a "spontaneous market economy" emerged (Horvat 1984, 134).

[53] The reform was based on the 19th century liberal principles (*laisser-faire*). The underlying idea was that of spontaneous adaptation of the economy and of the spontaneity of structural changes. The plan lost all social relevance, which was seen by some authors as an origin of the reform's failure (Čobeljić 1988, 43).

[54] It seems that the assessments of former senior party official in Poland and later political emigrant W. Brus (born Beniamin Zylberberg, 1921–2007) is overemphasized because the role of the party and the state apparatus attached to it remained significant, but it certainly convincingly paints a picture of the departure from the central plan concept and of one of the variants of seeking out the ideal solution in the context of self-management socialism.

bank in a market economy" (Berend 2009, 206–207). Still, informal party and state control retained some of the key elements of the Soviet-like economy, the most important of which was that the country's only source of credit funding was the central bank (Berend 2009, 206). There were also other forms of control that Čobeljić refers to as society's planned action, i.e., an intervention by social forces, while the parallel existence of market and planned elements was to form a complementary whole (Čobeljić 1976, 141–150).

Reforms also changed the banking sector, i.e., the function and role of banks in the economic system. Under the Law on Banks and Credit Operations and the Law on the National Bank of Yugoslavia of March 1965 (*Official Gazette of the SFRY* 12/1965),[55] the role of the banks in the process of financing production increase grew, an attempt was made to limit the role of the state in funding investments, the way was paved for the deterritorialization of business banks in terms of their establishment and operations (they could carry out their activities throughout Yugoslavia) and conditions were created for the consolidation of banks and for downsizing the network of bank organizations (Golijanin 1983, 50–51). Partly due to economic reform measures and partly under the influence of autonomous factors, prices quickly rising, increasing the cost of living. The dinar first depreciated against the dollar, then it was denominated (as of 1 August 1965, 100 old dinars was worth 1 new dinar), while credit and monetary policy measures had increasingly shifted from developmental to stabilization goals (Hofmann 2004, 160–165).

The Yugoslav experiment with market socialism was soon brought into question. The 1965 reform followed a declining phase of an economic cycle that was accompanied by a rise in inflation, unemployment and external deficit. Faced with a choice between going back to a controlled economy or further decentralization of power, the authorities decided to continue the reform process. Investments were decentralized, banking was commercialized and the corporate income tax that was used to finance state investment funds was abolished. Workers' councils elected company managements in cooperation with the local administration, income was divided between the investment fund and the wage fund, and significant differences in salaries were allowed in the hope of boosting work efforts. Decentralization also applied to the planning of long-term investments, with the belief that rational investing would be encouraged by the prospects

[55] In line with the 1963 Constitution, the name National Bank of Yugoslavia was introduced at this time. Minor changes were introduced to the Law on the NBY three more times by 1971 (*Official Gazette of the SFRY* 47/1966, 55/1968, 27/1971).

of larger future wage funds. However, salaries and other personal income increasingly kept funneling the money supply from companies to employees, so, gradually, work organizations face liquidity constraints, while individuals became increasingly wealthier. Hopes that economic growth would start by mid-1966 fell through, which the inadequate monetary and credit policy and foreign trade policy contributed to in part. The National Bank's restrictiveness in approving loans to business banks – brought about by credit potential assessments, which had previously been practically nonexistent – only aggravated the situation and intensified the effect of production slowdown, while the companies' debts kept increasing. The National Bank's actions confirm that, as a state instrument, it did not pursue an independent credit and monetary policy, but rather adapted to the requirements of politics (Andrijašević 1975, 192–193; Čobeljić 1976, 217–224; Lampe, Jackson 1982, 577; Golijanin 1983, 53; Horvat 1984, 125–129; Eichengreen 2007, 152–153).[56]

The introduction of self-management did not mean that centralization of accumulation in social and political communities (SPC)[57] had ceased (it still stood at almost 80%), while progressive decentralization did not weaken their role, but rather distributed it. The reduction in federation funds actually strengthened the funds of the republics and municipalities, while funds of the organizations of associated labor strengthened only gradually. The National Bank still played a powerful role. It was only in the 1960s that a more decisive withdrawal of SPCs from the process of concentration and distribution (allocation) of accumulation began, followed by the liquidation of state capital over the following decade – first at the federal level, and then in lower SPCs. A consequence was reduced intervention by the National Bank and the weakening of federal banks, but this did not mean that the funds of the economy had grown strong enough and that it was capable of directly deciding on how they would be used. Business banks, which had grown in the meantime (and organized their systems), concentrated immense funds (from the SPC funds, the noncommercial sectors, insurance, foreign loans, household savings) and gained a dominant role in allocating

56 State intervention in organizing banking and especially the central bank is not typical only of socialist economies, nor is it unknown in market systems. According to De Soto (De Soto 2009, 647–649), the establishment of a central bank is not the spontaneous result of a market process or of banking development, it is imposed by the state with a certain goal. Central banks are a result of government aspirations, so the factor of government influence is also known to exist in systems far more liberal than the socialist ones.

57 Social and political communities were municipalities, republics, provinces and the federation.

funds for the financing of investments in fixed assets and working capital (three quarters of banking potential was in the hands of only six banks). Still, such developments did not strengthen the position of self-management companies (organizations of associated labor) and basically distanced banking from the self-management premises, so the quest for a model of a better credit and monetary system led to further transformation (Vratuša 1979, 511–512).

Under the 1965 regulations, business banks were economic organizations which, based on SPC plans, performed credit and other banking operations utilizing the shared resources of the social reproduction budget fund, in accordance with the common interest, but with considerable independence in performing their activities. They were divided according to their function into investment banks, communal banks and savings banks, which was to mark the switch to specialized banking across the board. However, the possibility of mixed operations remained, which basically led to the establishment of the system of mixed banks, in new circumstances.[58] Social management via SPC assemblies (from municipal to federal) was introduced in business banks for the first time, and, after a decade of administrative decentralization, the process of consolidating business banks through merger began (Ugričić 1967, 178–181; Mitrović *et al*. 2004, 201).

According to Horvat, until 1965, the authorities managed to adapt reforms to the development of self-management and of the society as a whole (Horvat 1984, 240–242). During the *golden age* of Yugoslavia's economy there was no significantly noticeable surge in inflation or unemployment, and new horizons opened up. However, this was interrupted by the 1965 reform because, instead of an elaboration of the planned market system in the spirit self-management (full freedom of action for all self-management entities and the existence of a coordination mechanism that prevents activities contrary to the general aims),[59] a disguised para-state alternative was introduced, self-managerial in its form, but essentially interventionist, characterized by many agreements and arrangements between companies, but carried

58 The Belgrade United Bank was established already on 17 December 1965, and it included all short-term loans, investment loans for permanent working assets and capital assets, housing and communal loans, foreign currency and consumer loans to citizens, which made it a fully mixed bank (Ugričić 1967, 179).

59 Or in the spirit of moving toward a full market economy (including privatization in the foreseeable future) and true democratization for which, as Gligorov believes (Gligorov 2017, 397), there was grounds in the constitutional and other legal changes from the early 1960s, and even in the 1958 party platform (although it is hard to imagine the circumstances under which the LCY would voluntarily relinquish power).

little weight. This not only resulted in self-management companies losing autonomy to various administrative mechanisms, but also in a serious economic decline, which, in a complex multination community, soon started producing negative political repercussions.

The liberalization of the foreign trade and foreign currency systems, the increased shares of the economic organizations' and the citizens' in the distribution of the national product, and the aggravation of market conditions due to the increased sensitivity of economic entities, paved the way for a stronger impact of monetary factors. Still, the bank basic interest rate did not become an effective instrument of monetary policy. Due to nonfinancial factors, in conditions in which the demand for money constantly exceeded the supply, a *cheap money policy* was pursued, thus the strict system of the National Bank's discount operations prescribed by the law in practice turned into an inexhaustible source of lending to commercial banks for all kinds of purposes (mostly at the encouragement of local authorities), so, already starting 1967, the National Bank loans to business banks can be regarded as a unique form of a fiscal right to loans (Mitrović *et al*. 2004, 200–201).

The hopes that the socialist market economy would be effective proved to be unrealistic. The balance of payments slipped into deficit, investments dropped, prices increased, and the growth of industrial production between 1964 and 1968 was three times lower than before (18% compared to 54%).[60] Growth slowdown led to unemployment (solved by sending domestic workers abroad, which later produced positive economic effects) and to an increase in regional (republic) inequality, which not only had economic, but also social and political consequences (Čalić 2013, 282–282).

The system established by the reforms did not last long. During the process of constitutional changes, starting in the late 1960s, economy and banking were given a new framework. Amendments to the 1971 Constitution (workers' amendments) enabled the reestablishment of a universal bank type under the name business bank, which could be jointly established by business enterprises, non-commercial social entities and SPCs (without voting rights in bank operations), and the abolishment of investment and commercial banks. However, the NBY underwent the biggest changes in the process of creating a system of national banks of the republics and provinces, which marked its actual degradation (Golijanin 1983, 54; Gaćeša 2001, 584–585; Mitrović *et al*. 2004, 181, 201).

[60] The reform triggered a huge price increase. Comparing price index growth (by cycle) for the period 1955–1970: cycle 1955–1958: index 100.0; 1958–1960: 100.7; 1961–1964: 108.7; 1965–1970: 148.3. (Andrijašević 1975, 52).

Soon after the adoption of the Law on the National Bank of Yugoslavia and on the Uniform Monetary Operations of the National Banks of the Republics and the National Banks of the Autonomous Provinces of May 1972 (*Official Gazette of the SFRY* 23/1974), republic and provincial laws on national banks were also passed.[61] The SFRY Constitution of 1974 confirmed the changes that were made, but also established the concept of social agreement in the economy as the basis for the so-called contractual economy (*Official Gazette of the SFRY* 9/1974). Under this system, which remained in effect, with minor modifications, almost until the dissolution of socialist Yugoslavia, the NBY was formally still the foundation of the uniform monetary system, only now it was managed by a collective body, the Board of Governors, consisting of governors of the national banks of the republics, provinces and the NBY, which could pass most decisions only by consensus.[62] The central bank was federalized because the national banks of the republics and provinces were not only established by the federal units' special laws, but they also had their independent assignments for which they were accountable solely to their own parliaments. The Constitution did not confirm the NBY's exclusive right (as prescribed in the 1971 amendments) to the currency issuing function, while its functions in the field of regulating relations in the monetary system, monetary and foreign currency policy and regulating money circulation were significantly reduced. What remained of the exclusive NBY operations were some foreign currency operations (buying and selling and intervening in the interbank market and handling foreign currency reserves) and some financial functions for the needs of the Yugoslav People's Army and the country's defense, while external borrowing was carried out on the basis of a special law, and the issuance of money based on SFRY Parliament decisions.

[61] Law on the National Bank of Bosnia and Herzegovina, *Official Gazette of the SR of BH* 4/1972; Law on the National Bank of Montenegro, *Official Gazette of the SR of Montenegro* 13/1972; 20/1973; Law on the National Bank of Croatia, *Official Gazette of the SR Croatia* 40/1973; Law on the National Bank of Macedonia, *Official Gazette of the SR of Macedonia* 45/1972; Law on the National Bank of Slovenia, *Official Gazette of the SR Slovenia* 3/1973; Law on the National Bank of Serbia, *Official Gazette of the SR of Serbia* 18/1973; Law on the National Bank of Kosovo, *Official Gazette of the SAP of Kosovo* 12/1973; Law on the National Bank of Vojvodina, *Official Gazette of the SAP of Vojvodina* 26/1972, 3/1973.

[62] An additional hindrance to a rational pursuit of monetary policy was the fact that Board's decisions had to be approved in the Federal Executive Council (FEC) and in the SFRY Parliament, thus the Board of Governors could only make decisions on monetary policy instruments, but not on the actual policy. For examples of the federal government's influence see: AJ, Federal Executive Council (130)-928–1413, K.B. 16, 5 May 1954; AJ-130–758–1225, 01 No. 180, 21 April 1960, 01 No. 130, 20 January 1965, 01 No. 500, 12 March 1966, 01 No. 1057, 8 April 1968, 17 No. 801, 10 April 1970, 17 No. 209/9, 10 September 1970; AJ-130–4544, doc. 26.6 confidentially No. 422–8/80, 29 April 1980. Also see: Hofmann 2004, 178–221.

It is for this reason that, starting 1972, there could be no discussion of a central bank as a unified bank of issue, but rather of a central banking system consisting of the NBY and eight banks of the republic and provinces (Mitrović *et al*. 2004, 201–204).[63]

As a consequence of the 1974 Constitution and of the contractual economy,[64] during the period from 1976 to 1985, the so-called self-management banking system took shape, which, placed enterprises under its control, as their financial service. State capital was withdrawn from the business banks and SPCs could no longer be their founders. However, founders gained equal voting rights regardless of their equity stakes, they owned the total income generated by bank operations, and they were joint and several guarantors for all liabilities (not only with their equity stake but also with all their other assets) (Mitrović *et al.* 2004, 202). A series of regulations on banking and on the credit system, passed in 1976–1978, strived to strengthen the function of self-management enterprises and to enable their self-financing and association of work and income, with the aim of the rational utilization of funds.[65] The setting up of internal banks, as the basic unit of the banking and credit system, was enabled, while enterprises

[63] For the sphere of activities and the functioning of a federal unit national bank demonstrated on the example of the National Bank of Vojvodina see: Gaćeša 2001, 612–637.

[64] The contractual economy model was based on the belief that the economy could function based on voluntary agreements between economic factors and that cooperation could replace competition. However, instead of harmony, in conditions where every one of the 65,000 Yugoslav bearers of social planning (42.067 organizations of associated labor, 953 banks and associations of insurance, 1,863 work communities, etc.) drafted its own plan and harmonized it with other labor and social organizations, led to a period of non-coordination and actual nonexistence of a market and a plan. (Mecinger 1988, 175–178). What followed, as a sign of this economic system's weakness, was a decline in productivity, weakening of financial discipline, inflation growth and institutional politicization of the economy, while the absence of macroeconomic policy led to the complete disappearance of a central influence on the country's economy.

[65] Eight federal regulations were passed between late 1976 and mid-1977, directly or indirectly influencing the structure and operation of banks: the Monetary System Act and the Law on the National Bank of Yugoslavia and on the Uniform Monetary Operations of the National Banks of the Republics and the National Banks of the Autonomous Provinces (*Official Gazette of the SFRY* 49/1976), the Law on the Fundamentals of the Banking and Credit System and Law on the Social Accounting Service (*Official Gazette of the SFRY* 2/1977), Law on Foreign Exchange Operations and Credit Relations with Foreign Countries, the Law on Foreign Trade in Goods and Services and Law on Performing Economic Activities Abroad (*Official Gazette of the SFRY* 15/1977), as well as the Decree on the Establishment and Operations of Representative Offices of Foreign Companies in Yugoslavia (*Official Gazette of the SFRY* 30/1977).

and other legal entities were free to establish also other "self-management financial organizations" (banks, specialized banks, savings and credit organizations), as well as basic and united banks (Gaćeša 2001, 586–587).

Therefore, starting in late 1977, the banking organization consisted of the following: a system of central banks (NBY and eight banks of the republics/ provinces); business banks (internal and united banks, specialized financial organizations, savings and credit organizations, etc.); lending funds (for export operations,[66] economically underdeveloped areas and associated labor), while consortiums and associations of banking organizations also emerged. The SAS was a special financial institution – an independent organization for the execution of internal payment operations, control of the adequate use of social funds, and statistical and information work, while financial organizations also included insurance companies (insurance communities), although their role in the market was very modest. Finally, the regulations enabled the setting up and operation of representative offices of foreign banks and other financial institutions (Golijanin 1979, 134).

The Law on the National Bank of Yugoslavia and on Uniform Monetary Operations of the National Banks of the Republics and Provinces was passed in 1976 and amended and supplemented three times over the following twelve years.[67] Under Amendment 35 to the SFRY Constitution (*Official Gazette of the SFRY* 70/1988), the NBY and national banks of the republics and provinces were defined as institutions of a uniform monetary system that implement a common monetary and foreign currency policy, which led to the passage of a new Law on the National Bank of Yugoslavia and on Uniform Operations of the National Banks of the Republics and Provinces of 17 June 1989.[68] In the process of harmonizing with this law, a new NBY Statute was adopted, which came into effect on 5 January 1990, at a time when political passions and growing nationalism brought into question not only the survival of the banking system, but also that of the state.

As the founders of the internal banks lacked adequate regulations for quite some time, these banks were established in various ways and had different statuses (Gaćeša 2001, 646–654).[69] At the same time, in accordance with

[66] It was on its foundations that the Yugoslav Bank for International Economic Cooperation – the YUBIEC bank, was established in 1979.

[67] *Official Gazette of the SFRY* 49/1976, 41/1981, 26/1984, 71/1986.

[68] For the law, amendments and supplements see: *Official Gazette of the SFRY* 34/1989, 88/1989, 61/1990, 63/1990.

[69] Only 11 internal banks were established in the first year of the Law on the Fundamentals of the Banking and Credit System (1977), but by 1981 their number had increased to 164 (Golijanin 1983, 67).

the 1977 Law on Fundamentals of the Banking and Credit System (*Official Gazette of the SFRY* 2/1977), in order to meet the broader needs in pooling labor and resources that exceeded the scope of operation of the internal banks (for example, business operations with legal and physical persons who are not internal bank members), the establishment of basic banks, as organizations for all banking operations, was enabled, which could then form a united bank in order to achieve aims that exceed the scope of operation of a basic bank or with the aim of performing banking operations of common interest.[70] United banks were the highest level of financial integration and were conceived as a source of funding of the largest developmental and joint investment ventures. Finally, united banks and basic banks that comprised them could enter into agreements with other financial organizations and form consortiums. Nine united banks[71] were established in Yugoslavia by the mid-1980s, once again by applying the ideal formula of the Yugoslav federation – one in each republic and province and two in Serbia (the name of one was locally defined – Beogradska banka, and the other had a Yugoslav prefix – Jugobanka).

In regard to business banks, the last major change in the banking sector came just before the breakup of Yugoslavia. The Law on Banks and Other Financial Organizations (*Official Gazette of the SFRY* 10/1989, 40/1989) envisaged the transformation of banks into joint stock (shareholding) companies, which was a full turnaround toward market economy in the finance sector, but subsequent political events thwarted the effects of such decisions.

Changes in the 1970s led to a situation in which the NBY did not function as a unified bank of issue, but as part of a complex central bank system (federalism of credit and monetary regulation), which was a practice unknown in the rest of the world. The aggravation of the economic situation, which became evident in the early 1980s and soon after also chronic, was not beneficial to the stability of banking system. The increase in the balance of payments deficit, economic growth stagnation (only 0.6% in 1980–1988) and halved industrial production growth (2.4% in the period 1980–1988, from the previous 5%), the increase in unemployment and inflation, which

[70] By mid-1978 161 basic banks were formed (of which 132 were joined into united banks), and their number went up to 165 by the end of 1982 (Golijanin 1979, 134; 1983, 68).

[71] Belgrade United Bank, Belgrade; Ljubljana Bank – United Bank, Ljubljana; Commercial Bank – United Bank, Sarajevo; Yugo-Bank [Jugobanka] – United Bank, Belgrade; Vojvodina Bank – United Bank, Novi Sad; Commercial Bank – United Bank, Skopje; United Bank of Kosovo, Priština; Investment Bank – United Bank, Titograd; and United Bank of Croatia, Zagreb (Golijanin 1983, 71–72; Gaćeša 2001, 656).

turned into hyperinflation (at end of 1988 it stood at approximately 250%, and in 1989 it was over 2,600% per year), the sharp increase in foreign debt and the incapacity of its timely servicing, all led to the increased closing up of the federal units, i.e., to the creation of a kind of national (republic and provincial) economies. Inter-republic and inter-regional investments became a rarity (3%–4% of total investments). Autarchic tendencies in the domain of loans and money strengthened the role of the political factors of the federal units and further weakened that of the federal state, while measures for the protection of the unified monetary system, prescribed by the NBY, were not consistently implemented by the republic and provincial national banks. Enormous external borrowing was a particularly serious issue, along with an economically inefficient use of these funds, and the widespread abuse, which was made possible by the 1977 Law on Foreign Exchange Operations and Credit Relations with Foreign Countries (*Official Gazette of the SFRY* 15/1977), whose starting point was the principle that foreign currency is an integral part of every labor organization's income.[72]

The 1970s were a turning point that paved the way for the system's collapse. Even though domestic decision-makers were not the only ones responsible for it – there were also the global changes in the system of values brought on by the post-industrial society (the decreasing importance of industrial progress) and the changed international circumstances due to the policy of détente – the accountability of the state authorities should not be diminished, because they allowed for the industry to remain underfunded, technologically backward and bureaucraticized, and for the contractual economy, which was built on privileges, to be incapable of change. The failure to adapt to the challenges of the post-industrial and globalization era led to a decline in the demand for Yugoslav products, so the foreign trade balance became substantially negative.[73]

In the 1980s the country faced an even greater economic, but also political, social and psychological crisis, the gravest thus far, resulting in loss of orientation, insecurity and fear of the future, while the failure of a large

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72 For many years, Yugoslavia borrowed far too easily in the financial market, but the situation became alarming when the debt crisis broke out. The USA significantly increased interest rates in 1979 so large debtors (like Yugoslavia) were forced to spend a considerable part of their income on loan repayment. The federal government's powerlessness made the situation even more complicated because it lost control over the borrowing of the republics, so they increasingly fell under control of their creditors (from the international financial market), and Yugoslavia was faced with the situation of de facto sovereign default in 1981.

73 From 1975 to 1980 alone, the negative balance increased by more than two and a half times, from 61.6 to 166.1 billion dinars (Federal Statistical Office 1989, 299).

number of reforms and economic misery facilitated the loss of legitimacy and confidence. Inflation grew, rooted in the investment strategy that had been financed by foreign loans in the second half of the seventies, in the absence of domestic accumulation, thus triggering high external debt growth. Adding to this was the increase in real interest rates in the global market and the rapidly diminishing borrowing opportunities for over-indebted countries, and Yugoslavia faced difficulties importing raw and processed materials. Impeded importing disrupted the normal flow of production and the securing of funds for servicing external debts, so foreign exchange reserves were increasingly being used. At the same time, the price competitiveness of Yugoslav exports fell. The dinar was devaluated and exchange rates were adjusted. The increasingly slow economic growth became negative in 1983, so shortages and strong austerity measures followed. By 1984, economic decline, rising inflation, a growing budget deficit, a drop in the living standard and other accompanying misfortunes had created an army of more than a million unemployed people and increased social tensions. The republics became increasingly unyielding and further distanced themselves from one another, depriving the increasingly conservative federal state of the last remnants of its governing powers. Social, political and (increasingly) national differences gained momentum, while the ideas and benefits of socialism melted away at an increasing rate (Hofmann 2004, 265–266; Čalić 2013, 328–329, 347, 420–421).

The system in which the NBY could not essentially control the banks of the republics provinces, to which it was to approve loans and which in turn led to the expansion of money and loans in the country, resulted in constant inflation, against which restrictive monetary measures could not be taken because of the lack of consensus of the executive authorities. An absurd situation was created in 1983 when the NBY – by that time practically without any powers in the sphere of monetary policy – at the request of foreign creditors became the guarantor of all foreign liabilities (of all loans in the country and negative exchange rate differences) (Mitrović *et al*. 2004, 206–207; Jović 2009, 156). This was the price of the executive authorities establishing full control of the NBY, with the most noticeable effect being the constant weakening of the dinar and inflation growth, and the fatal consequence of which was the (con)federalizing of powers, thanks to which the national banks of the republics and provinces were able to undermine the unified monetary system.[74]

[74] On inflation in the early 1980s, growing credit indebtedness as well as on relations with the central authorities see: AJ-130–5988, doc. 38.3 No. 422–17, 10 December 1984; AJ-130–5656, doc. 28 No. 422–5/83, 14 February 1983; AJ, Presidency of the SFRY (803)-113, shorthand notes from the 81st sitting, 4 June 1981; Federal Statistical Office 1986, 164–170.

Until the end of 1986, decisions in the NBY Board of Governors were passed by consensus, which led to the adoption of compromise solutions in which rational criteria did not have priority. Due to the Board's inefficiency, responsibility was transferred to the Federal Government, which is why the two thirds majority principle was introduced in late 1986. Several reforms (economic and stabilization programs) were attempted during the 1980s, aimed at slowing down and ending the crisis and creating a solid foundation for the economic, as well as the political system. Such processes also included the 1988 constitutional changes (amendments), which pushed the country's economic system closer to the real market concept and facilitated integration of the Yugoslav economic system into Western European relations,[75] however, for entirely different reasons, the necessary change and modernization of the political system did not suit the political and provincial authorities, and even the federal government was not ready for a reform (Čobeljić, Rosić 1989, 382–382; Mitrović *et al*. 2004, 203–204; Hofmann 2004, 252–257, 320, 326, 350–351).

In the meantime, the federal government, headed by Ante Marković, attempted to implement a program of comprehensive reforms against the increasingly noticeable financial frivolousness caused by the restrictive credit and monetary policy. A program aimed at rehabilitating the economic and financial system was adopted at end of 1989. The initial results were more than encouraging.[76] However, the divergent goals of the republics, which were inspired by nationalism and operated within the framework of political intolerance, first led to the break-up of the LCY in early 1990,[77]

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75 Equality of social and private property and private initiative's legal illimitability were established (*Official Gazette of the SFRY* 70/1988), which practically suspended self-management.

76 Monthly inflation was reduced from 56% in November 1989 to 2.4% in March 1990 only to soon turn into deflation. The dinar was denominated at a ratio of 10,000 old dinars for 1 new dinar, pegged to the Deutsche mark (7:1) and gained convertibility. The parliament began adopting transitional legislation aimed at the accession to the European Economic Community. Imports were liberalized, and there was partial deregulation and opening up of the money, capital and labor markets. In six months, reforms increased foreign currency reserves from 5.8 to 8.7 billion dollars (July 1990), and the external debts was reduced by 2 billion dollars (Federal Executive Council 1990, 7–8).

77 At the 14th extraordinary congress of the LCY, which suspended its work due to the break-up of the party, a decision was to be taken on abolishing the contractual economy. The Declaration entitled "New Project for Democratic Socialism and Yugoslavia" envisaged the introduction of a market economy and the existence of different forms of ownership (i.e., the privatization of for-profit activities) (*Communist*, 1990).

and then also to the suppression of the reform effects. In the further disintegration of the federation, their accomplices were the national banks of the republics and provinces, which increasingly abused their position and power. Business intolerance and particularity became apparent, while arbitrary violation of financial discipline and breaches of integrity of the country's foreign exchange and monetary system became a commonplace.[78] Following the "assault" on the foreign exchange reserves, carried out by the republics starting in the summer of 1990, with the aim to get their hands on as much cash as possible, the culmination was Serbia's raid on the monetary system in December 1990 (Mitrović *et al*. 2004, 207–212; Hofmann 2004, 249–262, 265–284; Turnock 2005, 236; Čalić 2013, 367–368).[79]

Raids on the monetary system also continued in 1991. The process of the joint state's political and economic disintegration practically led to the liquidation of domestic payment operations and to the interruption of the flow of goods and capital in the country, to the termination of internal convertibility, decrease in foreign exchange reserves, loss of trust in banks, and increasing financing of the budget deficit from the primary issue. In the process of the break-up of the country, which starting in mid-1991 included a civil war, between October 1991 and June 1992, the republics withdrew, one

78 The analysis of materials from just eight sittings of the NBY Board of Governors (September – December 1990) revealed a series of great irregularities, inconsistencies and difficulties: breaches in spending, unauthorized issuance of money orders for payments in foreign countries, disagreement of the republics regarding the use of primary issue and, in general, frequent rifts in voting along with mutual accusations and finger-pointing by Board members, multiple breaches of monetary frameworks by banks and irregularities in implementing monetary and credit policy measures, unauthorized issuance of money or approval of loans from the primary issue over the agreed quotas, violation of NBY decisions on bankruptcy of banks and on unauthorized breaches of the primary issue and other irregularities not only in business banks, but also by the national banks, failure to transferring to the NBY part of the income from the interest on investments from the primary issue, loss of control of all monetary and credit aggregates, the fact that 45% of banks in the country were credit unworthy, and sluggishness in bank restructuring. In short, as the Governor of the National Bank of Bosnia and Herzegovina put it, everyone advocated for "their own region and for keeping the acquired positions". ANB, 1/III-ORG, Board of Governors, minutes from the sittings, 1990, f. 147–153, sittings 386–394, 7 September – 26 December 1990.

79 On Serbia's raid on the monetary system by withdrawing 18.24 billion dinars from the primary issue: ANB, 1/III-ORG, Board of Governors, minutes from sittings, 1991, f. 154, Minutes from the extraordinary sitting of 7 January 1991; *NIN* 1999.

after another, from the unified financial and monetary system of the SFRY,[80] a system that had undergone the most comprehensive changes throughout the entire epoch of the socialist Yugoslavia.[81]

## 5. CONCLUSION

The banking sector in socialist Yugoslavia began its transformation into a system of socialist relations immediately following the Second World War. Acts on nationalizing the private sector (confiscation, nationalization), setting up of socialist banks, consolidation and centralization, launched the system of a centrally planned economy. The logic of this system placed great importance in the central bank, which became a pillar of banking as a whole, with the contribution of complex external circumstances deriving from the split with the countries of the East, and the establishment of the nations' own vision of socialism – self-management.

At the time of the declaration of the new social system, the Yugoslav banking system underwent full centralization when all the banks in the country (except for a few savings banks) became part of the National Bank (1952). However, since the fusion failed to yield the expected results, in the spirit of decentralization and moderate market elements, the process of separating communal banking operations from the National Bank began starting 1954 and was soon followed by the establishment of specialized banks.

A new wave of decentralization followed in the early 1962, when the banking system was branched out into the National Bank and business banks, which consisted of communal and newly-founded commercial banks of the republics and provinces. However, the new system was not even fully operational when changes began, first in 1962, by strengthening the

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80 For details on the National Bank business policy and results see the annual reports of the National Yugoslavia for the years 1981–1991.

81 In addition to the above mentioned, the instability of the banking system was also reflected in the changes to the internal organization of the Yugoslav central bank. It underwent as many as twelve major internal organizational changes during the period between 1945 and 1989 (*Official Gazette of the DFY* 7/1945; *Official Gazette of the FPRY* 26/1947, 4/1954, 10/1961, 12/1965; ANB 1/III, ORG, Management decisions, Decision No. 110, 13 December 1966, and Decision No. 4, 19 January 1970; *Official Gazette of the SFRY* 23/1972, 49/1976; ANB 1/III, ORG, Management decisions, Decision No. 69, 15 November 1978, and Decision No. 46, 2 April 1985; *Official Gazette of the SFRY* 34/1989).

internal payment operations system through the Social Accounting Service, and then in 1964, when the banks of the republic and provinces were given considerable powers as specialized banks.

The decline in economic growth in the early 1960s led the solution being sought through economic reform (1965), which once again changed the banking system framework. The strengthening of market elements led to the creation of so-called socialist market banking, which strengthened the role of banks in crediting and limited (actually modified) state intervention, albeit mostly at the federal level.

The collapse of the reform brought about new changes, which spilled over from the sphere of political decentralization to banking. Hence, the constitutional changes from the early 1970s resulted in the confederalization of the central bank (the so-called system of the NBY and national banks of the republics and provinces). At the same time, business banks once again gained strength, spreading their network, and placing under control companies from the real sector, as their financial services, which was aided by the withdrawal of all state deposits from the banking system. Despite the fact that the 1980s brought a crisis, these banks increasingly moved toward full market operations, until political circumstances interrupted this transition within the framework of the Yugoslav community.

Economic stagnation was the first sequel the trend of political confederalization in the 1980s, followed by economic downfall which was accompanied by a balance of payments and budget deficit, inflation, an enormous external debt, and overall crisis. These conditions led to the economic autarchization of the republics, whose political sphere was being increasingly permeated by nationalism. Handing over responsibility to the central bank (regarding the servicing of the foreign debt) without the existence of adequate powers only speeded up the loss of cohesion and led to attacks on the uniform monetary system. Attempts at new changes in the banking sphere (but also in the overall economic, financial and social sphere) were thwarted by the further disintegration of the joint state, which slipped into civil war in 1991, marking the end of the unified financial and monetary system of socialist Yugoslavia.

The history of the banking system of socialist Yugoslavia, in many respects specific, remains open for numerous economic and historiographical studies and research. Among other things, it is the author's belief that it would be sensible to analyze the effects of each of the reform processes that impacted banking, to establish the difference between the principles and techniques proclaimed by the reforms and the achieved practice, with special emphasis on determining the impact of the external (political) factor on the planned market system, to examine the resilience and sustainability of the banks following the failure of the self-management socialist system and the dissolution of the joint state, what legacy Yugoslavia left to the banking of successor countries, etc.

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Proposal for the periodization of the history of the banking system of socialist Yugoslavia:

1. **Centralization phase (1944/45–1954)**
   - period of reconstruction and nationalization of banks (1944–1946)
   - period of concentration (1947–1952)
   - period of a unified bank (1952–1954)
2. **Decentralization phase (1954–1965)**
   - period of introduction of the multi banking system (1954–1955)
   - period of decentralization in accordance with the establishment of a new communal system (1956–1961)
   - period of increased decentralization and introduction of business banks (1961–1965)
3. **Socialist market banking phase (1965–1991/92)**
   - period of reform and the establishment of socialist market banking, accompanied by a reduction of the role of SPCs and the opening up of possibilities for inter-Yugoslav banking (1965–1971)
   - period of the establishment and functioning of the system of national banks and business banks as special organizations of associated labor, and harmonization of the monetary and credit system and banking system with the constitution (1971–1976)
   - period of the functioning of a complex system of national banks in conditions of an aggravated political situation and growing social and political tensions (1976–1989)
   - period of initial transformation of banks into joint stock (shareholding) companies (1989–1991/92).

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[1] *Official Gazette of the SR Croatia* (1973).

[2] *Official Gazette of the SR of Makedonia* (1972).

[3] *Official Gazette of the SR of Serbia* (1973).

[4] *Official Gazette of the DFY* (1945).

[5] *Official Gazette of the FPRY* (1946–1952, 1954, 1956–1961).

[6] *Official Gazette of the SAP of Kosovo* (1973).

[7] *Official Gazette of the SAP of Vojvodina* (1972–1973).

[8] *Official Gazette of the SFRY* (1963, 1965–1966, 1972–1973, 1976, 1981, 1984–1986, 1988–1990).

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