Committee on Balance-of-Payments Restrictions

REPORT ON CONSULTATION WITH YUGOSLAVIA AND ON THE YUGOSLAV SPECIAL IMPORT CHARGE

1. In accordance with its terms of reference and instructions of the Council the Committee has conducted a consultation with Yugoslavia on its import restrictions applied for balance-of-payments reasons and examined the Yugoslav special import charge introduced in July 1970. The present report summarizes the main points of the discussion and the views of the Committee on the import charge.

2. The Committee noted that the previous consultation with Yugoslavia on its import restrictions had taken place in April 1968 (BOP/R/23). On the present occasion the Committee had before it a new basic document (BOP/109) supplied by the Yugoslav authorities, and material supplied by the International Monetary Fund, comprising background papers dated 1 May and 10 September 1970 and the text of its Executive Board Decision of 20 May 1970. In conducting the consultation, which took place on 15 October 1970, the Committee generally followed the established plan for such consultations as set forth in Annex I to L/3388.

Consultation with the International Monetary Fund

3. Pursuant to the provisions of Article XV of the General Agreement the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with the Yugoslav restrictions and import charge. Upon the invitation of the Committee the representative of the Fund made a statement as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the Executive Board decision of May 20, 1970 taken at the conclusion of its most recent Article XIV consultation with Yugoslavia, and particularly to paragraphs 2 to 4 which read as follows:

'2. Economic growth proceeded strongly in 1969. For the year as a whole, the social product at constant prices was 10 per cent greater than in 1968, and employment increased by substantially more than in recent years. The rate of growth moderated during the second half of the year. For 1970, the authorities expect an increase in social product of 6-7 per cent.

'3. Prices increased more in 1969 than in the previous year and there was an acceleration during the course of the year. Personal incomes continued to increase substantially more than productivity. The Yugoslav authorities are endeavoring to develop a more effective incomes policy, which the Fund believes is essential in order to strengthen the external position."
The gold and convertible foreign exchange holdings, together with the net Fund position, improved by $198 million, but the level of gross convertible reserves continues to be low relative to the total size of external transactions. Moreover, there was a further increase in foreign indebtedness. The Fund believes that Yugoslavia must continue to give high priority to improving the balance of payments and the reserve position, and that dependence on external restrictions should be reduced. The Fund welcomes the termination of the bilateral payments agreement with Tunisia and the intention of Yugoslavia to press for the termination of the remaining such agreements with Fund members.”

“At the present time the general level of restrictions and the import surcharge of Yugoslavia which are under reference do not go beyond the extent necessary to achieve a reasonable rate of increase in Yugoslavia's reserves.”

I. CONSULTATION ON IMPORT RESTRICTIONS

Opening statement by the representative of Yugoslavia

4. In his opening statement, the text of which is reproduced in Annex I to this report, the representative of Yugoslavia outlined the principal developments in the Yugoslav economy since the last consultation in April 1968. It was noted that the economic revival which began in 1968 had continued in 1969 and that industrial production had increased considerably. The rapid growth and high economic activity had entailed an instability in the domestic market, reflected in rising prices and wages as well as in financial difficulties of enterprises. Certain monetary measures had consequently been taken with a view to moderating the rate of expansion. For 1970 a sound rate of growth was envisaged but this was likely to be accompanied by the usual problems connected with rapid expansion. In the external sector exports and imports had risen considerably in 1969 but the trade deficit had increased as a result of the more rapid increase in imports than exports, especially in the trade with western countries. The trend continued until the first quarter of 1970. Since then exports had ceased to expand at the previous high rate while imports began to rise rapidly. For 1970 as a whole exports had originally been expected to exceed the 1969 level by 12 per cent and imports by 10 per cent but these estimates had both been exceeded. The trade balance with the convertible area had been showing a growing deficit this year.

5. The rapid growth in imports bore witness to the liberal nature of Yugoslavia's import control régime. Apart from the liberalized and conditionally liberalized categories of imports there existed an assortment of other ways for the finance of imports. According to certain unofficial estimates, over 80 per cent of total imports were in effect effected in a liberal manner. The widening trade deficit was, as usual, largely compensated by receipts on invisibles account. The current account as a whole remained in deficit both in 1968 and 1969, which would have led to a loss of reserves had it not been for a substantial net inflow of capital. The foreign exchange reserves had been increasing until the second quarter this year. Since then they had steadily declined.
6. In conclusion the representative of Yugoslavia recalled the measures that had been taken earlier this year for the safeguard of the balance of payments and stated that while the basic objectives of economic policy in Yugoslavia were still in the direction of further liberalization and the establishment of closer links with the world economy, import restrictions remained essential for the time being as a means of preventing further deterioration in the external financial position.

Balance-of-payments position and prospects

7. Members of the Committee expressed appreciation for the comprehensive and informative statement made by the Yugoslav representative and especially welcomed his assertion that the new medium-term plan under preparation would continue to aim at fostering trade liberalization and closer links with the world economy. In their view the Yugoslav economic reform programme initiated in 1965 had been impressively successful and the increasing reliance on market forces for the allocation of resources must have been fundamentally responsible for the rapid economic growth. It was only to be hoped that this reliance on market forces would be given equal emphasis in the trade field and bearing in mind that Yugoslavia had achieved a small surplus on its balance of payments in recent years Yugoslavia would remove the remaining restrictions as soon as possible. Members of the Committee noted the view of the IMF that the present restrictions were necessary to achieve a reasonable rate of increase in the reserves, but considered it disappointing to see that no major liberalization measure had been taken during the last three years when there had been sizable increases in the foreign exchange reserves.

8. As regards the immediate future members noted that while the more rapid expansion of imports than exports implied a widening of the trade gap, this had so far been largely offset by rising revenues from tourism and remittances as well as inflows of capital. The representative of Yugoslavia observed that the present reserves, while higher than in 1968, were still low in relation to the country's foreign trade requirements, and must be built up to a more comfortable level before any large-scale liberalization could be contemplated. In the meantime, steps had been taken to simplify the control system, by way of abolishing the conditionally liberalized category and reducing the coverage of the "linking system".

9. In reply to a question the representative of Yugoslavia stated that it was expected that net receipts on invisibles account would continue to offset to a large extent the deficit on the trade account. Tourism had so far shown a promising rate of growth and was being further promoted through infrastructural improvement and enlargement of existing capacity. Banking arrangements were being improved to attract expatriate workers' savings and deposits as well as to facilitate their remittances.

10. A member of the Committee stated that developing countries having a favourable balance on trade account often found their surplus offset by payments on invisibles account such as shipping. In the case of Yugoslavia a sizable income was derived from tourism and workers' remittances and it would be interesting to know to what extent Yugoslavia was burdened with shipping expenditure. The representative of
Yugoslavia pointed out that the traditional pattern of Yugoslavia's payments consisted in a trade deficit, compensated in part by net receipts on invisibles account and partly by capital inflows, especially in the form of medium-term loans. "Transportation" normally showed a positive balance among the current account items and available data showed no significant disbursements on shipping account.

11. A member of the Committee, referring to the high level of Yugoslavia's debt service obligations in relation to her prospective foreign exchange earnings, expressed the hope that the Yugoslav Government would pay close attention to the level of short-term debt. He wished to know whether any steps were being taken to soften the current impact of the foreign debt structure by limiting short-term suppliers' credit. The Yugoslav representative noted that partly owing to the decentralization of decision making and partly because of the scarcity of domestic funds, the central authorities had found it extremely difficult to prevent enterprises from contracting foreign credit when they had the means for the consequential servicing, mainly from entitlements under the retention quota system. Most of the increase in 1969 was, however, in medium-term rather than short-term credits accorded by foreign suppliers and banks.

12. Several members of the Committee suggested that Yugoslavia give close attention to attracting long-term foreign investment. In response the representative of Yugoslavia recalled the discussion during the last consultation concerning the law introduced in 1968 on joint ventures. Although this had so far yielded only limited results, partly owing to the legal limitation on foreign equity participation in the economy, changes were being considered with a view to introducing greater flexibility in the system. Other measures to facilitate the inflow of investment capital included the setting up of the International Investment Corporation with the participation of the IFC and foreign banks. Discussions were in progress on the use of tax incentives to attract foreign investment. In fact the Republic of Montenegro had already introduced certain incentives of this kind, and the new measures being contemplated might well be instituted at the same time as the changes in the regulations governing joint ventures mentioned above.

Alternative measures to restore equilibrium

13. A member of the Committee stated that while his government viewed with sympathy the difficult balance-of-payments situation of Yugoslavia it nevertheless wondered whether the problems would not be better solved through an even greater reliance on alternative internal measures rather than import restrictions. In response to questions in this connexion the representative of Yugoslavia recalled that a somewhat restrictive monetary policy had been adopted towards the end of 1968 and during certain period thereafter whenever the economy appeared to be gaining excessive speed in expansion. Various new measures were in fact being actively considered.

14. As to what new measures might be taken if those at present in force or planned should be found inadequate in redressing the current disequilibrium in the economy, the representative of Yugoslavia observed that the authorities would
no doubt closely examine the possibilities but were unlikely to come up with new methods not already well-known and well-tried. The monetary and fiscal policies might further be tightened. Price control might have to be used but only as a last resort. "Intervention imports" could be made whenever it was considered desirable to damp the pressure on prices by easing the supply of certain products. At any rate there could be no question of meeting the difficulties by intensifying the restrictions on imports. On the other hand the Yugoslav authorities did not consider, as had been suggested by a member of the Committee, that the planned rate of economic growth of 6.5 per cent to 7.5 per cent in the next five years was over-ambitious, industrial production being expected to rise by 10 per cent.

15. A member of the Committee referred to the successive financial stringencies that had been seen in Yugoslavia since the inception of the economic reform in 1965 and thought that too much reliance had perhaps been placed on monetary policy to the neglect of fiscal measures, and that even the monetary measures would appear not to have been applied with the necessary degree of consistency. While this phenomenon might partly be explained by the effects of decentralization, much could be attributed to the policy of adhering to the balanced budget. He suggested that better co-ordination between different levels of government in budgetary planning and operation might increase the usefulness of fiscal policy as an instrument to combat instability. In reply the representative of Yugoslavia agreed that the authorities had been relying mainly on monetary measures but that there were other deficiencies in the economy than the inadequate use of fiscal policy. A capital market was lacking and attempts were being made to encourage the merging of small banks and the formation of larger units so as to increase efficiency, and to mobilize unutilized funds through the issue of debentures. Various ways and means were being explored and experimented with, which were outside the domain of monetary policy, apart from certain stop-gap measures designed to meet the acute liquidity problems faced by the economic enterprises.

16. Members of the Committee observed that while the economic reform in Yugoslavia had evidently shown considerable results in liberalizing the economy and foreign trade, there appeared to be many areas of weakness calling for remedial action. In particular the spiralling rises in wages and prices with wages rising twice as fast as productivity would seem to be the root cause of instability. In this connexion they referred to the proposed formation in Yugoslavia of a committee comprising representatives of federal and regional authorities as well as management and labour to work out an effective incomes policy, and enquired whether any progress had been made or could be expected in relating more closely personal income to productivity. The representative of Yugoslavia stated that although there was general agreement among the various sectors of the economy that changes in personal income should be in harmony with changes in productivity, it had been found difficult in practice always to restrain wage rises within limits consonent with that principle, and this was partly due to the general tendency for prices in European countries to rise which entailed higher costs of living and provided grounds for claims for upward adjustments in personal earnings.
System and methods of restriction

17. Members of the Committee commented on the complex nature of the import control system which, even after the forthcoming abolition of the LBO category announced to the Committee by the Yugoslav representative in his opening statement, would still involve four different categories. In response to requests for clarification and in reply to specific questions concerning various aspects of the restrictions the representative of Yugoslavia explained that upon the abolition of the "LBO" (conditional liberalized) category almost all the products previously in it would be transferred to the fully liberalized (LB) category; the régime would to that extent become less restrictive. The changes would be published in the near future. The global exchange quota or GDK list comprised mainly raw materials, capital goods and some consumer goods. The quotas were allocated to individual enterprises on the basis of their imports of the goods covered in the preceding year, and special allocations were available to newly created enterprises or existing enterprises venturing into new fields. An increase in the quotas for 1971 had just been decided upon. Capital equipment was, however, not normally imported under such quotas but was mainly financed out of retention quotas and amortization funds. Some consumer goods were included in the liberalized (LB) category, but some are in the global quota (GDK) category. The treatment was considered liberal inasmuch as importers were free to choose any item on the list to import from any source up to the general limitation of the quotas allocated to them.

18. Asked whether any of the products previously on the LBO list had been transferred to a more restrictive category, the representative of Yugoslavia said that at present it was only known that some items might be transferred to the GDK list, although a final decision was yet to be taken. Such a transfer would become effective on 1 January 1971. Certain changes were envisaged in respect of goods at present on the commodity quota (RK and DK) lists. The Committee was further informed that the practice was to publish whenever necessary lists of modifications to the existing lists of products subject to various import régimes.

19. A member of the Committee, referring to the system which involved a link between imports and exports whereby, for some types of imports, the availability of foreign exchange to enterprises depended on their export performance, asked whether any changes were envisaged in the foreign exchange system in the near future. The representative of Yugoslavia pointed out that this linking was not a general attribute of the system as a whole as it had applied only to certain individual sectors, namely the metal, shipbuilding, electrical, textile, and foodstuff industries. As from 1 October, the scope of this linking system had been reduced and now applied only to certain selected items in the metal and electrical industries, ready-made clothing and shipbuilding.

20. A member of the Committee enquired whether Yugoslavia had, as it had indicated earlier, abolished the tax on business capital which had been the main source of revenue for the development of the less-developed regions and, if so, whether parallel action was envisaged in respect of the 3 per cent special tax on imported goods imposed to offset the burden placed on domestic production by the aforementioned tax. The representative of Yugoslavia stated that the levy on business
capital had indeed been abolished. As regards the special tax on imports this
had not been imposed to compensate only for the burden of that levy, but also
for that of a number of other levies, such as the 2 per cent tax to provide funds
for earthquake relief. Earthquakes being unfortunately exceptionally frequent,
the special tax had to be retained for the time being, although the possibility
of a reduction in the rate of the tax was not precluded.

21. One member expressed the view that the 1 per cent statistical tax levied on
imports would appear to be unrelated to the cost of the services rendered and
consequently inconsistent with the provisions of Article VIII of the General
Agreement. The representative of Yugoslavia replied that the levy was intended
to cover the expenses of customs statistical collection, and while it would be
impracticable to adjust the rate of the tax precisely in accordance with the
budgetary requirements of the statistical bureaux, the present rate would seem to
be minimal.

22. Invited to provide information on the scope, purpose and manner of the
operation of the variable levy on agricultural products, the representative of
Yugoslavia recalled discussions in various organs of GATT on this type of measure
which was in operation in many countries. The ordinary customs duty was inade­
quate to the task of protection of the domestic market against disruptive inflows
of agricultural products whose prices were subject to wide and frequent fluctua­
tion. The variability of the levy was intended to meet the variation of import
prices in relation to domestic prices and costs of production. In the Yugoslav
case the variation was not entirely automatic and required a decision taken in the
light of documentary evidence concerning prices and market conditions abroad and
in the country. The products on which a variable levy could be imposed were
included in a list published in the Official Gazette. The levy was imposed only
when the market conditions warranted it and at the present only a few products
were actually subject to it, such as alcohol, butter, milk and certain types of
cheese, edible oils, wine, certain fruits, sugar and eggs.

23. In response to a question the representative of Yugoslavia stated that among
the cheeses subject to variable levy Trappist cheese and Emmenthal cheese were
on the quota (RK and D) list, as similar types of cheese were available from
domestic production.

24. The Committee noted the recent termination of Yugoslavia's bilateral payments
agreements with Ghana, Israel, Tunisia and the United Arab Republic and the
introduction of some elements of convertibility in the agreement with Spain. The
Committee also noted the reduction in scope of some agreements, as well as the
relative decline in her bilateral trade. While welcoming these developments,
members of the Committee urged that further efforts be made for the termination
of the remaining agreements and asked if there was any time-table for this. In
reply the representative of Yugoslavia confirmed that negotiations were in progress
for the termination of some agreements but accomplishment in this field depended
not only on the volition of Yugoslavia but also the willingness of the partner
countries; the termination of any agreement could not be achieved by unilateral
declaration and account had to be taken of the need to avoid impairing Yugoslavia's
relations with its traditional trading partners.
Conclusions

25. The Committee expressed appreciation for the frank and co-operative manner in which the Yugoslav delegation participated in this consultation and for the helpful information provided on the commercial policy and import restrictions of Yugoslavia. It had not been possible in recent years to make further progress in the liberalization of the trading system and the Committee expressed the hope that further improvements in the balance of payments and in the reserves would soon make additional liberalization possible. Members of the Committee also urged Yugoslavia to consider the possibility of eliminating the auxiliary taxes on imports. The Committee welcomed the firm policy of the Yugoslav Government to seek the termination of all bilateral payments agreements whenever circumstances permitted.

26. The representative of Yugoslavia assured the Committee that the views and representations expressed by other representatives would be conveyed to the appropriate authorities in Belgrade for careful consideration.

II. SPECIAL IMPORT CHARGE

27. In accordance with the instructions of the Council the Committee, in the course of the consultation on import restrictions, also examined the special import charge introduced by the Government of Yugoslavia as from 19 July 1970 as stated in document L/3419.

28. The representative of Yugoslavia explained that this charge was intended to contain the expansion of imports at a time when a decline in Yugoslavia's international reserves, which had begun towards the end of the first quarter of the year, showed signs of acceleration, mainly as the result of a sudden upsurge in imports; the import charge had been introduced when, in July 1970, imports were found to be 50 per cent higher than in the corresponding month in 1969. Under the relevant GATT provisions the Government would have been entitled to introduce new restrictions on particular products but, being anxious to avoid a reversal of the established policy of progressively freeing imports from quantitative restrictions, had chosen to resort to a measure which was generally considered to be less detrimental to the trade interests of other contracting parties. The import charge was levied at the low rate of 5 per cent ad valorem and its effect would be spread over the whole range of imports, thus placing no burdensome incidence and exerting no protective effect on any particular products. The charge had so far shown no significant effect on the volume of imports.

29. The Committee was further informed by the representative of Yugoslavia that the import charge would be applied, as stipulated in the Executive Decision of 18 July in implementation of the Federal Law of the same date, only until 30 June 1971, although the enabling law was of a permanent nature. It was applied on all dutiable imports - in the agricultural as well as in the non-agricultural sector - and on imports from all sources without discrimination. The text of the Law and the Executive Decision is reproduced in Annex II to this report.
30. Members of the Committee enquired about the criteria which would govern the maintenance or abolition of the import charge. The representative of Yugoslavia stated that the rate of 5 per cent had been decided upon by the Government after careful consideration of the requirement of the situation, the likely effects on imports and internal prices as well as the interests of Yugoslavia's trading partners. This rate was stipulated in the Executive Decision of 18 July and could not be increased without a new decision. The period of its application had been fixed in the light of the current estimate of the country's balance-of-payments position and prospects. Being applied for balance-of-payments reasons it would undoubtedly be maintained only to the extent justifiable on that ground and would be eliminated when conditions no longer justified its maintenance.

31. In reply to a question as to the circumstances in which the Government of Yugoslavia had found it necessary to make use of the import charge, having regard to the economic and import control system in existence, the representative of Yugoslavia stated that his Government had to rely on the usual kinds of commercial policy measures, such as tariffs, import charges and quantitative restrictions, for the regulation of its imports, since the general economic system of the country no longer permitted direct government intervention in commercial or industrial activities; planning in Yugoslavia was of a general and flexible nature, involving no rigid targets concerning particular products or industries, and the making of decisions relating to particular products had long been decentralized. Nor was the present import control system by itself an effective instrument for the regulation of the overall level of imports, as many items of imports, mainly raw and semi-processed materials and capital equipment, had been freed from restriction. The upsurge of imports in the spring of 1970 had been mainly in these liberalized categories.

32. In reply to another question the Yugoslav representative stated that the Law and Executive Decision in question contained no special provision for the rebate of the charge on imported elements of exported goods, but the normal tax exemption facilities for exports would apply with respect to the incidence of this import charge.

33. As noted in paragraph 3 above, the IMF had advised that:

"At the present time the general level of restrictions and the import surcharge of Yugoslavia which are under reference do not go beyond the extent necessary to achieve a reasonable rate of increase in Yugoslavia's reserves."

The Committee concurred in this judgment of the Fund. It took note of the Yugoslav contention that the import charge, as it was at present applied in accordance with the Executive Decision of 18 July 1970, was less restrictive of trade and less detrimental to the trade interests of other contracting parties than the additional quantitative restrictions that Yugoslavia would have been justified in applying under the criteria of the relevant GATT provisions.
34. Taking into account the assurance given by the Yugoslav authorities that the measure would be maintained only to the extent necessary for the specific purpose mentioned above, and would be eliminated as soon as it was no longer justified on that ground, and having regard to the limited incidence of the charge at the specified rate of 5 per cent, the Committee came to the conclusion that in this particular case the Council might wish to take a decision to take note of the situation and keep it under review, and to examine without delay any change in the import charge that might be notified by the Government of Yugoslavia. It would be desirable to invite the Yugoslav Government to notify the CONTRACTING PARTIES in advance of any change in the level or duration of application of the import charge. Yugoslavia should be urged to eliminate the measure as early as circumstances permitted, in any case not later than 30 June 1971. It might also be agreed that all the conditions and criteria embodied in the appropriate provisions of the General Agreement concerning the use of quantitative restrictions for balance-of-payment reasons should be deemed applicable in respect of this import charge. This disposition by the Council would in no way preclude recourse to the appropriate provisions of the General Agreement by any contracting party which considered that any benefits accruing to it under Article II of the Agreement in respect of any bound items included in the Yugoslav Schedule were nullified or impaired as a consequence of this measure.

Annex I: Opening statement by the representative of Yugoslavia.

Annex II: Text of Federal Law on the special tax on imported goods and the Executive Decision imposing the tax.
Opening Statement by the Representative of Yugoslavia

The last consultations between Yugoslavia and contracting parties to the GATT on restrictions applied for balance-of-payments reasons were held at the end of April 1968. I shall cover in my introductory statement the period from that time up to approximately the first half of this year. I shall mostly concentrate on the year 1969 for which full information is available. Besides I consider that year particularly characteristic for the period under review.

In accordance with the planned objectives of the economic policy, 1968 witnessed a revival of the economic activity of the country. While the first months of the year showed a continuation of the stagnation of the past year, by the middle of the year a remarkable trend of revival of the economic activity began. This was noted first in the field of investments, and then in non-agricultural production (agricultural production in 1968, as in 1967, decreased because of unfavourable climatic conditions). The most important feature was the increase of the rate of growth of industrial production, particularly in the last months of the year (10 per cent), but owing to the low rate of growth in the first months of that year, the rate of growth was 6 per cent for the whole year.

At the same time as the industrial production increased, there was a certain slowing down of the rate of growth of exports, as well as an increase in the trade deficit. Exports not only increased less than in the previous year, but increased less than imports. These developments were mainly due to a decrease in agricultural production, as well as some external factors such as: various import restrictions of other countries, especially in regard of agricultural and livestock products, the instability of the international monetary system and measures taken by some industrial countries to improve their balance of payments. In spite of these unfavourable factors, however, a favourable balance was achieved vis-à-vis the convertible area, while the trade deficit aggravated in respect of the bilateral area, this in the first place due to the policy of my country to reduce its positive bilateral balances by increasing imports from this area.

The year 1969 saw largely a continuation of tendencies which appeared at the second half of 1968. The goals set in the economic policy for 1969 were basically fulfilled and in certain fields even exceeded, especially in exports towards the convertible area. The results realized in 1969 are very important, especially when we bear in mind the slower growth of the economy in the previous years.

A very high rate of growth and high economic activity was the result of the endeavours made to adapt production in accordance with the requirements of the market, measures taken with a view to maintaining the level of economic activity and the favourable conditions in the world markets. Accompanying this were further
changes in the pattern of demand. Moreover, the extension and diversification of
economic relations with foreign countries which took place at this junction helped
to promote the development of technology, to improve organization of work, to
modernize production programmes and methods. The productivity of the social -
i.e. public - sector increased, the utilization of production and service
capacities was improved and further steps were taken to enhance co-operation,
specialization and integration in the economy.

The social product increased by 10 per cent in 1969 over the 1968 level, the
activities of almost all branches of the economy being increased. The results
obtained in production were reflected in improvements in the personal and social
well-being in the country, as well as in developments in certain fields of non-
productive activities.

However, in certain lines of domestic consumption, demand was increasing
faster than real material possibilities. For this reason the economic growth and
achievements in 1969 were followed by an increased instability in the internal
market; this caused an increase in prices and in the cost of living, which led to
a considerable gap between nominal and real personal incomes. At the same time a
very high level of foreign trade had not resulted in the disappearance of the
deficit on balance of payments, which continued to be substantial. During 1969,
some enterprises encountered difficulties in their mutual payments, owing mainly
to commitments undertaken beyond their available resources from income. One
should not, however, forget that Yugoslav economy is an open economy and as such
is to a great extent subject to the influence of external factors. Sharp increases
in prices abroad, especially for certain raw materials and semi-finished goods, as
well as the general situation in the credit market have exerted a strong influence
on the Yugoslav economy.

Appropriate measures were then taken in various fields with a view to ensuring
the realization of the objectives of the economic policy. Credit and monetary
policy had, however, to be applied under considerably more complex conditions than
in previous years, and the objectives were complex: to support economic activity
and to achieve stability as well as to improve the balance of payments. To achieve
these objectives was much more difficult also on account of the rapid increase in
the rate of growth, continuing from the previous year. The basic objective of
credit and monetary policy was not only to support overall economic growth but also
to act selectively on particular branches of the economy. The policy had to help
to expand exports, to increase agricultural production, as well as to foster other
activities in the interest of the balance of payments.

The realization of these objectives was further complicated by a very high
liquidity carried over from the previous year, which had been deliberately created
in order to revive the economy, when the total money supply increased by 24 per
cent and the total liquidity by 19 per cent.

Restrictive credit and monetary measures were then taken in order to reduce
the excessive liquidity and these had a quick effect: the liquidity of the banks
was considerably decreased, and the rate of growth of the money supply was gradually
brought down to the 12 per cent envisaged in the credit and monetary policy for
1969.
The economic policy for 1970, which is the last year of the current medium-term development plan, has as its objective to sustain the positive trends of development and is working in four main directions: to achieve an optimum growth of the economy, to secure stable conditions in the economy, to consolidate business relations and to ensure more equitable distribution of the national income.

Taking into account the results obtained within the framework of the first three years of the current planning period, the favourable trends in internal and external markets, and the high level of production in 1969, there are grounds for hoping that a relatively high increase of production and consumption will be achieved in 1970, though somewhat lower than the increase in 1969. The increase of the social product could be approximately 6.5-7.5 per cent, and of the industrial production 9-10 per cent. It is expected, however, that agricultural production will be slower by about 7 per cent, mainly owing to the heavy floods in the spring. There are indications that these objectives will be achieved, but there are also adverse movements, especially in respect of prices, trade and payment balance.

The general rate of increase of industrial production for the first half of this year was 9.2 per cent higher than in the same period of last year, and this is within the framework envisaged in the Federal Assembly Resolution on Economic Developments in 1970.

After a somewhat slow increase of production and easing of the market by the end of the first quarter of this year, recent information shows that high economic activity, characteristic for the previous year, still lasts, although showing certain declining tendencies. At the same time, there persists in accentuated form, the instability in the market and in prices as a consequence of certain structural problems. Strong demand, not fully met by domestic production, is still present. This lagging behind of production in relation to demand has been caused above all by the lack of liquidity of enterprises and by several other associated facts, such as inadequate supply, discrepancy in the movement of prices and certain transport difficulties. Here again, strong external impacts should not be forgotten.

This relation between supply and demand, coupled with the overall increase of prices on foreign market, provoked a further increase of producers' and retail prices. This caused a new increase in the cost of living and consequently in personal income. New short-term credit restrictions were introduced when such credits were, for instance, 19 per cent higher in June of this year than in the same month of last year. The experience of former periods shows, however, that credit and monetary policy may not always have an adequate impact on prices or on the trade balance and may not in itself be able to redress all adverse non-monetary influences. This may partly be explained by other measures of the economic policy, especially in fiscal policy, policy of income distribution and the balance-of-payments policy which are insufficiently harmonized with monetary policy. It is partly also due to more permanent disproportions in the economic development, elimination of which is a long-term process.

These are the main developments in my country since mid-1968 up to about the middle of this year. I have been deliberately avoiding the details as all the necessary data can be found in our various regular statistical publications. However, I should like to describe in greater detail the developments in our foreign trade and in the balance of payments, which I believe is of a particular interest to this Committee.
The decreasing trend of the rate of growth of foreign trade continued in 1968. Exports increased by 1 per cent, and imports by 5 per cent, while the deficit of the balance of trade was higher by 17 per cent. This was the smallest increase of exports and imports for the past few years. This was due to certain factors.

Side by side with a high rate of growth of industrial production and of the building industry, as well as the considerable increase in agricultural production, the social product increased in 1969 by 10 per cent in real terms, which is the highest after the introduction of economic reform in 1965.

Obviously, these movements were reflected in foreign trade. Imports and exports increased in 1969 at rates never attained during the preceding ten years. The rate of growth of imports was higher than that of exports, so that the trade deficit increased. Thus, exports increased by 16.7 per cent, imports by 18.8 per cent, and trade deficit by 23.7 per cent over the 1968 levels.

A number of factors, both internal and external, contributed to this substantial increase in exports. First of all there was a greater utilization of the existing capacities and consequently a reduction in the costs of production; increased agricultural production also contributed to the increase in exports. Increased demand abroad as well as the increase of prices on external markets, were the most important external factors.

If we consider the trends of Yugoslav foreign trade in 1969 in respect of its regional distribution, we can notice a trend of faster increase of trade with the convertible area, both in exports and imports. Owing to this fact, the share of our trade with that area in our total trade increased considerably. However, in spite of a great increase of exports to the convertible area, our trade deficit with this area increased by no less than 14 per cent. The greatest increase was achieved in exports of industrial products (18 per cent), while exports of agricultural products increased in 1969 by 8 per cent, after a stagnant and decreasing trend of the year before.

The greatest increase in imports was in raw materials and semi-finished goods (26 per cent). Also, the implementation of their programmes of industrial reconstruction and modernization, the existing foreign trade and foreign exchange system allowed the enterprises to use to a greater extent their rights to buy equipment abroad. After a considerable increase (of 27 per cent) in 1968, imports of equipment increased in 1969 by 8 per cent, while imports of consumer goods increased in 1969 by 14 per cent.

The especially favourable developments in our foreign trade during the first four months of the current year have been reversed since the beginning of the second quarter. The rate of growth of exports has been decreasing, compared to that of the first months of this year, and the increase of exports is slightly slower than during the corresponding months in 1969. On the other hand, the rate of growth of imports is alarmingly increasing from month to month.
Thus, the rate of growth of exports was 37 per cent in January, 49 per cent in February and 23 per cent in March. They were lower by 14 per cent in April, and 11 per cent in May, than in the corresponding months in 1969. The month of June was an exception when there was an increase of 24 per cent over the same month of the preceding year. However, the rate of growth of exports decreased again in July and fell to 0.5 per cent below last year's level. Exports for the period January-July as a whole were, however, 19 per cent higher than they had been in the corresponding period of the previous year.

There were also adverse movements in imports. In the first months of this year, imports were lower than in last year, but at the turn of the first and second quarters, imports increased at a fast rate. They were 2 per cent lower in January, and 8 per cent lower in February than a year before. Since March, they began to increase: by 6 per cent in March, 23 per cent in April, 22 per cent in May, 40 per cent in June, and 30 per cent in July, exactly. The increase was 24 per cent for the period January-July. For the first six months of the year they increased by 19 per cent compared to the same period of the last year. Preliminary data for the last two months (August-September) indicate a similar, although slightly moderate, trend.

The unfavourable ratio between exports and imports, with a more accentuated increase in imports, caused an increase in the foreign trade deficit.

The trade deficit for the period January-June of this year is 11 per cent higher, and for the period January-July 33 per cent higher, than in the same periods of the year before.

Such developments in our foreign trade have opened many questions: first, how it would be possible to exceed the targets set out in the economic policy guidelines for 1970 providing for an increase of exports by 12 per cent, and of imports by 10 per cent above last year's level. It is true that the year 1970 is not yet at its end and that the last months of the year could considerably modify the present ratios but it is now almost certain that those objectives will be exceeded, and that the deficit of the trade balance will be higher than it was envisaged at the beginning of the year. This question becomes more important if we consider the degree of restrictiveness of our foreign trade régime. As has been indicated in certain articles recently published in Yugoslavia, the inescapable conclusion is that our import régime is in fact more liberal than it appears to be at first sight. Besides the two liberalized categories of imports (LB and LBO) there are a number of other sources of finance for Yugoslav imports. These "other sources" are, according to these articles and I can only agree with them, more important for the flow and volume of imports than those coming in under the import régime, and are inordinately more important than those subject to restrictions. Thus, if we take into consideration all the sources of finance for imports, we come to the conclusion that in fact about 80 per cent of Yugoslav imports are liberalized. In considering the latest developments we must keep in view the fact that Yugoslav exports, and imports as well, were largely influenced by the general trends in the country and abroad, especially the fact that the rate of increase of domestic prices was greater than abroad, thus increasing the propensity to import.
The considerable and increasing deficit in the balance of trade was however largely compensated by the invisible items, particularly by the inflow of tourist trade and from workers' remittances, both showing a consistently increasing trend.

While in 1967 the trade deficit amounted to $455 million - almost entirely with the convertible currency area - in 1968 the deficit increased to $533 million, and relates to both the convertible and the bilateral areas. It must be pointed out here that the deficit in the trade with the bilateral area resulted from a deliberate policy on the part of Yugoslavia to decrease its bilateral balances. The year 1969 showed a further increase in the trade deficit, now amounting to $660 million. For 1970 a moderate increase was forecast, but recent developments indicate that it is likely to be much higher than expected.

On the other side, net receipts from the invisible items also show increases, but at a lower rate than that of the trade deficit. While the current account deficit amounted to $106 million in 1968, it increased to $119 million in 1969. This deficit, as well as certain increase of monetary reserves, was financed by the net inflow of capital amounting to about $200 million.

In respect to the balance of payments with the convertible area, one should say that the trade deficit was more than compensated by net receipts on invisibles account, while the balance of payments with bilateral area shows further a deterioration of the trade deficit and a smaller deficit in invisibles. The inflow of long-term capital in 1969 was approximately the same as in the previous year, but short-term liabilities have considerably increased.

It has been said above that the trade deficit was to a certain extent compensated by invisibles. Three basic items of invisibles provided in 1969, the net receipts of $539 million compared with $402 million in 1968. Gross receipt from tourism amounted to $240 million and net receipts were $171 million. Workers' remittances amounted to $204 million. Further increases of the net receipts from tourism amounting to approximately $200 million and from workers' remittances amounting to $250 million have been envisaged for 1970.

The total monetary reserves of the country, although higher than in 1968, are still at a very low level as they scarcely cover the value of 1½ month's imports. They amounted to $253 million at the end of 1969, but by the end of the first semester of this year they had fallen to $217 million.

This development in the balance of payments required further financing from abroad. Total medium- and long-term liabilities of Yugoslavia in convertible currencies amounted to $1.9 billion at the end of 1968, of which $1.5 billion were disbursed. By the end of 1969, the indebtedness had increased to $2.3 billion ($1.7 billion disbursed). Total repayments increased from 19 per cent of total receipts in foreign exchange in 1968 to 23 per cent in 1969.

These unfavourable movements in the balance of payments of Yugoslavia were coped with by various measures during the last two years in line with the Federal Assembly Resolution on Economic Policy for 1969, and with the similar Resolution for 1970. This represents a continuation of policy initiated in 1965 by the
Economic and Social Reform. Besides the continuation of the process of liberalization of prices, which has to a certain extent lost its momentum in the last years because of the inflationary pressure, various measures of credit and monetary policy were used. Steps were also taken on the international side in the conclusion of new trade agreements and among others, the trade agreement with the EEC should be particularly mentioned. Certain adjustments for balance-of-payments reasons were introduced in the existing foreign trade system, as well as a temporary import tax of 5 per cent. The basic objectives of all these measures are to consolidate the existing economic system and to improve the balance-of-payments situation of the country.

In 1969 preparations were initiated for the elaboration of a new medium-term plan for 1971-1975. These preparations will be completed this year. The whole process of development of the Yugoslav economy is directed towards further liberalization and its linking with the world's economy to the greatest extent possible. This process could, however, be endangered if a certain degree of restrictiveness in our foreign trade system were not retained. Without such restrictions the balance-of-payments situation, already far from being a favourable one, could only aggravate, which would compromise the basic objectives and principles of our economic policy as a whole.
ANNEX II

(a) Law on the Special Tax on Imported Goods

(Published in the Official Gazette of S.F.R.Y. No. 31/70, 18 July 1970)

Article 1

In order to ensure equilibrium in the balance of payments with foreign countries as provided under the social plans, a special tax on imported goods may be introduced.

The Federal Executive Council shall decide on the goods or groups of goods on which this special tax shall be levied, the amount of the tax and the duration for which it will be levied.

Article 2

Funds derived from this special tax shall constitute receipts of the Federal Government and shall be paid into the Federal budget.

Article 3

Payment of the special tax shall be effected at the time of customs clearance of the goods in accordance with the regulations in force on the payment of customs duties.

Article 4

The special tax paid shall be included in the basis for the assessment of the turnover tax.

Article 5

This Law shall enter into force the day following its publication in the Official Gazette of the S.F.R.Y.
On the basis of Article 1, paragraph 2 of the Law on the Special Tax for Imported Goods (Official Gazette S.F.R.Y. No. 31/70), the Federal Executive Council takes the following

DECISION

on determining goods on which the special tax should be paid when imported:

1. The special tax shall be paid on all goods which are imported, in the amount of 5 per cent of their value.

   The special tax mentioned in the first clause of this paragraph shall be levied up to 30 June 1971.

2. The special tax mentioned in paragraph 1 of this Decision shall not be paid on goods which under existing regulations are free of import duty.

3. The special tax shall be calculated and levied on the value of imported goods free at Yugoslav border.

4. This Decision shall enter into force on the day following its publication in the Official Gazette of S.F.R.Y.