1. The Government of Yugoslavia has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. In 1961 there was a substantial slowdown in the rate of growth of the economy, partly because of the unfavorable harvest. However, the slowdown was also caused by weaknesses in certain institutional arrangements which favored sharp increases in personal incomes, a large credit expansion and tended to lessen the emphasis on productive investments. To correct these shortcomings, and to obtain an increased rate of growth, the Government took a series of measures in the spring of 1962, which included steps to improve the management of economic enterprises, to keep personal incomes within the limits set by improvements in productivity, to restrain non-directly productive investment, and to stimulate production and investment through an expansion of exports. These measures, which are being continued, had a beneficial effect; the real social product in 1962 rose by 5 per cent as against 4 per cent in 1961 and, in the first four months of 1963, the rate of growth has accelerated. The volume of fixed investment did not change between 1961 and 1962, while personal consumption rose slightly. Agricultural prices continued to rise in 1962, but industrial prices remained stable throughout the year. In 1962 a substantial deficit emerged in the budget of the Federal Government, amounting to Din 71 billion or some 12 per cent of total expenditures. This was partly offset by surpluses in the Republican budgets amounting to Din 28 billion. The Government deficit was financed by the central bank as also were some expenditures of the General Investment Fund. Largely as a result of these two factors, the money supply increased by 29 per cent in 1962, compared with 20 per cent in 1961.

3. In 1962 exports rose by 21.5 per cent to $691 million while imports declined by 2 per cent to $888 million. There was also a substantial improvement in net earnings from invisible transactions, especially tourism. The balance of payments deficit on goods and services account declined from $285 million in 1961 to $113 million in 1962. Net borrowing abroad exceeded this deficit and holdings of gold and convertible foreign exchange increased to $88 million at the end of 1962, compared with $42 million at the end of 1961. The largest expansion of exports occurred in the categories receiving the two highest export premia of 22 and 32 per cent on the settlement rate of Din 750 per US$. Since early 1962 exporters have also enjoyed a simpler procedure in the refund of internal turnover taxes.
4. The Fund notes the strengthening of the balance of payments achieved in 1962 and early 1963 and the steps taken by the Government to secure the further sustained growth of the economy in conditions of internal stability. It believes, however, that the situation needs careful watching, especially with regard to the possibility of an excessive credit expansion leading to further price and cost rises. It is also important that the Government’s policy of achieving a balance in its budget should be pursued with determination. A careful financial policy, in the view of the Fund, would facilitate the Government’s efforts to organize the economy in a manner conducive to the most effective utilization of available resources and the achievement of external balance.

5. At the beginning of 1962 the special tourist rate was abolished, but the three categories of export premia established at the time of the exchange reform were retained unchanged. The import licensing system also remained unchanged in 1962, although certain import quotas were applied more restrictively. The Fund believes that a reduction in the reliance on bilateral agreements is feasible and urges the Government to take early steps toward the elimination of such agreements, especially those with Fund members. The Fund also hopes that as the improvement in the monetary reserves permits, Yugoslavia will further reduce its reliance on restrictions and discrimination.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Yugoslavia.