1. This is the second appearance of my country before this distinguished gathering in order to conduct consultations on restrictions for balance-of-payments reasons in conformity with Article XVIII of the General Agreement. On this occasion, I should like to express my satisfaction at having this opportunity to discuss with you a number of questions of interest both to my country and the CONTRACTING PARTIES.

In the course of the last consultations which took place in 1963, questions relating to Yugoslav's economic system were considered and closely examined. With your permission I should like now to give a brief outline of trends in my country's economy since the last consultations and to point out certain facts which require the further maintenance of certain foreign trade restrictions.

2. Due to the moderate rate of growth of the Yugoslav economy in 1961 and 1962, measures were taken early in 1963 to intensify economic activity. These measures were taken particularly in the field of investments and personal consumptions by means of expanding resources out of which investment credits are granted and by means of easing conditions for granting consumer credits. These measures had a positive impact on the Yugoslav economy in 1963, and were retained until July 1964.

3. Thanks to these measures, certain favourable results have been achieved in the process of my country's dynamic development. May I point out several facts:

(a) The total national product, in real terms, increased at the rate of 12 per cent in 1963-64 period. During the last two years, industrial production increased by 34 per cent, while agricultural production increased by somewhat over 16 per cent.

(b) The high level of investment influenced the growth of production in general and of industrial production in particular. Thus, the volume of investments in 1964 was 30 per cent higher than in the previous year, whilst the physical volume of industrial production in 1963 and 1964 increased by 16 per cent in each year.

(c) The increased economic activity during the last two years contributed to the accelerated growth of the employment rate and to the increase of personal income; its nominal increase in 1964 was by 25 per cent higher than in 1963.
4. However, such dynamic developments over the past two years had also some negative effects; such as:

(a) The high rate of growth caused, particularly late in 1963 and in 1964, an increase in the total consumption above the level of the supply.

(b) They also had an impact on prices, which rose under the conditions of intensified economic activity.

The effects of such developments were particularly reflected in the foreign trade balance. Owing to increased prices and high demand, the domestic market became more attractive for Yugoslav export industry. A great part of goods produced found an even better market in the country. This contributed to the relative decline in the rate of growth of exports, and at the same time facilitated the increase of imports. Thus, imports in 1963 increased by 19 per cent, as against 14 per cent of exports, whilst in 1964 the imports increased by 25 per cent as against only 13 per cent of exports. It must also be borne in mind that natural disasters in 1963 and 1964 (earthquakes, floods) created additional demand on imports well above the expected level.

5. The instability in economic developments which acquired a more and more accentuated form in 1964, imposed the taking of measures in order to slow down the domestic consumption and remove the causes of inflation. To this end, measures were taken in the second half of 1964 to cut down investments and personal consumption, primarily by decreasing the total volume of credits.

Meanwhile the preparatory work for the economic reform was already in course. This reform is based on the Resolution on basic guidelines for further development of the economic system and on the Resolution on guidelines for the working out of the Social Plan for Yugoslavia up to 1970. These Resolutions were passed by the Federal Assembly in 1964.

The same, the Social Plan of Yugoslavia for 1965 has provided for the maintenance of measures already taken and the introduction of additional measures aiming at the stabilizatory effect of the former measures on the economy. The Social Plan for 1965 has also provided for the realization of more favourable developments in the balance of payments, being the result of measures taken for the stabilization of the market as well as of the measures which brought about the change in the relations within the economy and in the economic system as a whole.

Prior to the measures taken within the framework of the economic reform the decision was taken to freeze prices of industrial products. This measure, as well as the other taken in 1964, fall within the programme of the economic reform.
6. Too short a time has elapsed since 26 July of this year, when the measures of the economic reform were introduced, to enable us to give an estimate of their effect.

I would not like to take much time in enumerating too many data and in quoting statistical figures, but I would nevertheless indicate some economic facts characteristic of our economic development in the period from January to August of this year.

(a) Industrial production shows a more moderate increase and it is 9 per cent greater than in the same period of the last year.

(b) A better supply of raw materials and other reproduction material in the industry was also noticeable. These stocks show in fact an increase in comparison with the same period of the last year. An increase is also shown by stocks of finished goods.

(c) Investments have increased by about 5 per cent, against about 30 per cent for the whole of 1964. The slowing down of investments is particularly characteristic for the end of the first half year.

Such developments in the economy have had a favourable impact on the foreign trade balance also. Thus, exports have increased in the first eight months of this year by 17 per cent, while imports have decreased by 5 per cent in relation to the same period of the last year as a result of the decreased demand.

7. I would like to take this opportunity to set out for you in brief the measures of the economic reform. The essence of these measures is explained in more detail in the document which will be submitted to the CONTRACTING PARTIES.

Among these measures it should be mentioned in the first place the fixing of the new par value of the dinar on the basis of 1,250 dinars for $1. As from 1 January 1966, the present 100 dinars will be changed for one new dinar. The new par value represents a uniform exchange rate and is being applied to all payments without exceptions.

Further, export subsidies have been abolished and a greater degree of liberalization of imports is to be introduced, especially for imports of raw materials and spare parts. For all other imports global quotas will be introduced and a more liberal policy applied on imports of equipment. All these measures will be introduced gradually depending on the balance-of-payments situation and the level of monetary reserves which should be increased up to 25 per cent of the total annual payments.

At the same time, a new law on the customs tariff was passed containing ad valorem tariffs considerably lower than those in the preceding tariff. The old provisional tariff contained duties the average incidence of which was 23.29 per cent, compared with 11.7 per cent in the present one. Simultaneously, fiscal
elements were, to the maximum possible extent, eliminated from tariffs. Details of the new customs tariffs will be submitted to the CONTRACTING PARTIES in a separate document. The essence of these and other measures within the framework of the economic reform consists in the decentralization of decision-taking in the economy, in the elimination of price distortions and in the strengthening of marketing criteria in the price formation with greater impact of foreign competition. Thus conditions are created for a more intensive inclusion of Yugoslavia in the international division of labour.

8. Allow me now to give a brief summary of the foreign trade developments within the past period of two years.

The negative trade balance has considerably increased in 1964 as compared to 1963 (from $267 million to $429 million). Certain basic causes of such development have already been mentioned. In 1963 exports increased by 14 per cent, and imports by 19 per cent. In 1964 exports increased by 13 per cent and imports by 25 per cent as compared to the preceding year.

The provisional data for the first six months of this year show an export of $481 million against $417 million and imports of $621 million against $660 million in the same period of the previous year.

The greatest part of Yugoslav foreign trade is with the GATT countries. Thus 74 per cent and 71 per cent of total Yugoslav exports went to GATT countries in 1963 and 1964 respectively.

On the other hand, GATT countries accounted for 81 per cent and 79 per cent of total Yugoslav imports in 1963 and 1964 respectively.

According to the method of payments the greatest part of the Yugoslav exchange of goods is made with convertible currency area, which area accounted for 55 per cent of Yugoslav exports in 1964 and for about 63 per cent of Yugoslav imports. The CMEA countries took 35 per cent of Yugoslav exports and provided 29 per cent of Yugoslav imports in 1964. The remaining trade was made with other bilateral agreement countries.

9. I would now pass to some balance-of-payments questions. The foreign trade balance is the decisive factor for our balance of payments. A greater deficit in the foreign trade balance could to a certain extent be neutralized by surpluses on services and invisibles. However, the deficit on current account was increased from $110 million in 1963 to $208 million in 1964. In the course of the past year receipts from transport increased by 19 per cent, from tourism by 30 per cent, and from emigrants' remittances by 50 per cent. Only private transfers were smaller than in the preceding year. Taken as a whole the net inflow of transport, services and invisibles amounted in 1964 to $173 million against $139 million in 1963. This was of course insufficient to cover the great deficit in the trade balance.
10. Two more important factors are influencing our balance of payments: the level of monetary reserves and repayments of foreign debts.

The gold and foreign exchange reserves of my country reached their highest level in the last four months of 1963 when they amounted to US$146 million. Since then, and because of the reasons already mentioned, they started to decrease; at the end of 1964 they amounted to US$88 million and at the end of the first half of this year to US$82 million. This means that only about 6 per cent of the total value of our imports in 1964 could be covered by our reserves. Since then an improvement occurred, mainly as a result of the last drawing from the International Monetary Fund in August.

Insufficient monetary reserves are one of the main limiting factors in the implementation of a more liberal policy in our foreign trade relations.

The second factor which is particularly relevant for our balance of payments is the repayments on foreign debts. The structure of foreign loans and credits in respect to their conditions and terms was not always the best for our economy. The obligations of our country on these loans and credits burden our balance of payments considerably, especially as they are concentrated on the next few years. About 53 per cent of the total Yugoslav indebtedness has to be repaid in the years 1965-68; this represents over 20 per cent of total exports of my country at the present export level.

I consider it unnecessary to point out that my country has always met its obligations on the due date and will continue to do so in future. But I wish to underline that, in spite of the unfavourable situation in the balance of payments and in spite of natural disasters, steps were taken in the past period for a further decrease in restrictions in the foreign trade system of my country. However, the considerable deficit in the balance of payments and a relatively low level of monetary reserves do not permit us to eliminate entirely the existing restrictions, without fear of provoking new disequilibria in the economic development of my country.

11. In the past period consultations have taken place with the International Monetary Fund. Contracting parties are informed about these consultations and their results. In conclusion, I believe that the CONTRACTING PARTIES will approach the present consultations with their customary understanding of the situation of my country.