INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH YUGOSLAVIA ON 26 FEBRUARY 1968

1. This decision is taken by the Executive Directors in concluding the 1967 consultation with Yugoslavia, pursuant to Article XIV of the Articles of Agreement.

2. Aggregate production in constant prices was 1 per cent higher in 1967 than in 1966, following a rise by 8 per cent from 1965 to 1966. While agricultural output showed a large increase in 1966, and 1967 was another good crop year, the growth in industrial production which had already slowed down in 1966 continued this trend in 1967 under the influence of policies of financial restraint and some weakening of foreign demand. The financial restraint has primarily affected fixed investment. A substantial increase in personal incomes led to a sharp rise in consumption. At the same time, there has been marked progress toward price stability and a freer system of price formation.

3. The authorities intend to continue the present policies of financial restraint while applying credit policy selectively to support export and other growth industries. They are also actively considering measures to limit a further rise in personal incomes to the expected rise in productivity. They hope that a moderate revival of growth will occur in 1968 mainly as a result of an expected strengthening of foreign demand. The Fund agrees that continued financial restraint is indispensable for balance-of-payments purposes, and that a firm incomes policy is needed to bring about a redeployment of resources in the economy in order to reconcile the objective of adequate economic growth with internal and external stability.

4. In 1965 and 1966 the balance of payments was in overall surplus reflected, for the most part, in an increase of $95 million in credit balances on bilateral clearing accounts. Reserves in gold and convertible currency rose only slightly more than the net use of Fund resources. In 1967, the authorities expect another overall surplus of about $60 million, almost entirely reflected in the bilateral balances rather than in Yugoslavia's net convertible reserves. The Fund notes the concern of the Yugoslav authorities about the growth of these balances and urges that every endeavour be made to reduce the continued imbalance in bilateral transactions.
5. Significant import liberalization was introduced at the beginning of 1967 and already has had beneficial effects on the economy. The Fund considers it essential that efforts be made to extend to the maximum extent the range of payments that are free of restrictions. No progress has yet been made in the elimination of bilateral payments agreements with Fund members, and the Fund continues to urge that efforts to terminate these agreements should be pressed ahead strongly.