

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Limited Distribution

Committee on Balance-of-Payments Restrictions

1981 CONSULTATION WITH YUGOSLAVIA (SIMPLIFIED PROCEDURES)

Background Paper by the secretariat

1. This paper has been prepared in accordance with paragraph 7 of the Declaration on Trade Measures Taken for Balance-of-Payments Purposes (L/4904) to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of this Declaration.

I. Yugoslavia's previous consultation

2. The last full consultation with Yugoslavia took place on 16 November 1976. At this consultation the Committee welcomed the recent improvement in the Yugoslav balance of payments and reserve position and expressed the belief that the programme of import liberalization, interrupted in mid-1974, should be resumed. In the light of these improvements the Committee invited the Yugoslav authorities to consider at the earliest appropriate time the relaxation and eventual removal of the import surcharge. The Committee expressed the hope that the Yugoslav authorities would adopt policies designed to avoid renewed balance-of-payments difficulties caused by domestic demand pressures and urged Yugoslavia to consider a further simplification of its import control system. (BOP/R/91, paragraphs 23-25)

3. The last full consultation was followed by a consultation under the simplified procedures in the fall of 1978.

II. The main changes in Yugoslavia's trade policy since the last consultation

4. Since the last full consultation the Yugoslav authorities implemented major economic reforms in 1977 and 1978 which introduced decentralized self-management into the fields of trade and exchange

activities.¹ As a consequence of these reforms, an increased role was assigned to the "self-management communities of interest" in republics and autonomous provinces, which have become the major bodies deciding upon and carrying out the importation of goods. The process of decentralization in the economic sphere was strengthened during 1979 and 1980.

5. Following these major reforms there were no fundamental changes in Yugoslavia's trade and exchange system during 1979 and 1980.

6. A linkage agreement to tie import allocation to export performance was reached in July 1979. The distribution of foreign exchange for the purchase of imports is authorized only if specified export objectives are achieved.

7. During 1979 the classification of items according to the manner in which foreign exchange is made available for imports changed little: specified types of fertilizers were shifted from the liberalized (LB) list to the license (DK) list. Imports in the liberalized list amounted to about 43 per cent of total imports in 1979 and to 46 per cent of total imports from convertible currency areas.

8. Duty reductions which accompanied the introduction of the new Law on Custom Tariffs of 1 July 1978 were extended through 1980 for certain intermediate and capital goods for which domestic production was not considered sufficient. The overall level of customs duties declined slightly in 1978 to an average of 9.8 per cent and further in 1979 to an average of 8.9 per cent.

9. On 21 April 1979 a customs surcharge of 5 per cent, additional to the 10 per cent surcharge on imports, was levied on certain luxury goods including alcoholic beverages, cigarettes, cosmetics, perfumes, decorative items of glass, porcelain, pearls, diamonds, jewellery, and precious metals and products thereof.

10. On 19 May 1979 the taxes on certain imports and on domestically-produced goods containing more than 50 per cent of imported raw materials were increased by 50 per cent. Among the products subject to the new tax were imported cognac, whisky, vodka, rum, carpets, crystalware, precious stones, clocks, watches, some cosmetics, playing cards, snakeskin items and cigarette paper.

¹These reforms and the laws which introduced them are outlined in the background document which Yugoslavia presented for the last consultation, BOP/193 and in the background document for this consultation, BOP/214.

11. In January 1980 regulations were published relating to the conditions, criteria, and procedures for the allocation of quotas for imports in 1980. A few measures were taken during 1980 which served to liberalize imports.

12. As of 7 June 1980 the Federal Executive Council of Yugoslavia announced the abolition of the 10 per cent import surcharge which had been introduced in May 1975 for balance-of-payments reasons. Its abolition was connected with the devaluation of the Yugoslav dinar on 6 June 1980¹.

13. On 13 June 1980 two tariff items of coffee and 11 tariff items of chemical products were removed from quota restrictions (RK list) and placed on the liberalized (LB) list².

14. Conditions for the temporary importation by economic organizations of transport equipment, certain tools and machinery were liberalized in July 1980, and in August, special additional quota allocations were announced for the import of goods that would benefit less developed regions.

15. An economic and financial programme for 1981-1985 was recently adopted by the Yugoslav authorities with, as one of its primary objectives, a further reduction in the balance of payments deficit.

III. Major trends in Yugoslavia's foreign trade since the last consultation

16. In 1979, buoyant domestic demand brought about an 8 per cent increase in the volume of imports into Yugoslavia. At the same time, the volume of exports remained virtually at the same level as in the year before and, mainly due to a sharp rise in petroleum prices, the terms of trade deteriorated by around 4 per cent. As a result of this combination of factors, the country's merchandise trade deficit widened to nearly \$7.2 billion, compared with \$4.3 billion in 1978³.

¹This was notified to GATT in L/5056 of 4 November 1980.

²This was notified to GATT in L/5054 of 29 October 1980.

³Trade balance figures are here based on trade statistics: exports (f.o.b.) minus imports (c.i.f.).

17. For 1980, estimates show practically no change in the terms of trade. The modest decrease in the trade deficit, to about \$6.1 billion, was thus almost entirely due to the combination of resumed growth of the volume of exports (+11 per cent), and decline in the volume of imports (-11 per cent).

18. Export growth accelerated in the second half of 1980, after the monetary authorities' decision in June to devalue the Yugoslav dinar by 30 per cent (against the U.S. dollar). At \$9.0 billion, 1980 export earnings were nearly 40 per cent higher than in the preceding year. There was a recovery of maize and meat exports after the 1979 setback, and further gains from exports of refined sugar and sawnwood. Among manufactures, which account for over three-quarters of total exports, furniture, clothing and - in particular - footwear were among the most rapidly expanding export items in 1980.

19. Imports into Yugoslavia increased from \$14.0 billion in 1979 to \$15.1 billion in 1980, despite the decline in volume. In 1980, the Yugoslav import bill for fuels topped some \$3.5 billion (2.5 times more than in 1978), while no significant volume increase took place over the last two years. Imports of machinery and transport equipment declined in 1980, reflecting the sluggishness of domestic investment.