

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## FOREIGN TRADE AND EXCHANGE SYSTEMS IN YUGOSLAVIA

Memorandum submitted by the Yugoslav Government for  
the information of the Working Party

### I. Foreign Trade System

The system and organization of foreign trade in Yugoslavia is the result of a development process of longer run. In the period from 1945 to 1951 this system consisted in administrative management of and state monopoly in foreign trade which in 1952 were changed into foreign trade activities on the basis of market forces and workers' self-management, making it possible for economic organizations to be independent in concluding export and import transactions within the frame of the basic proportions under the Federal Social Plan. From about ten monopolistic organizations centrally managed by the then existing Ministry of Foreign Trade the system has changed into about 500 present enterprises which are independent in management and commercial transactions.

#### Basic Principles

In the period of administrative management of economy (1945-1951) foreign trade was firmly planned as a component part of the general economic plan and the export and import plan was worked out in detail for economic enterprises, in the form of planned targets. Export and import plans, import and export licences, as well as licences authorizing payments, and the strict centralization of the whole foreign trade activities in the power of about ten monopolistic export-import organizations, under administrative and operative management of the then existing Ministry of Foreign Trade, were the characteristics of the foreign trade of Yugoslavia at that time.

By passing over to the new economic system based on workers' self-management and freer play of market forces in 1952, the foreign trade was re-organized. The decentralization in this field of economy led to a gradual expansion of foreign trade activities among a larger number of foreign trade enterprises. These enterprises expanded their activities freely on principles of profitability and rentability, in which they were released from the then existing administrative restraints. When, in the middle of 1952 export, import and payment licences were abolished, the part of the administration in foreign trade was reduced to sustain within the scope of general proportions of exports and imports as estimated under the Federal Social Plan.

By abolishing the Ministry of Foreign Trade and by reorganizing the collective body of the administration suitable adaptations have also been made in the organization of the Government administration in accordance with the new economic system.

The amount of the export and import value is estimated under the Federal Social Plan each year. The current economic plan reckons with a fixed volume of imports and exports as an essential factor in the normal development of the estimated process of national production. The foreign exchange and foreign trade instruments have, among others, in view the goal of making the realization of these planned proportions possible.

On this ground the Committee for Foreign Trade, in co-operation with other Government organs and institutions, works out in detail (also as estimates) the programme of exports and imports by branches and groups of products, taking into account the expected volume and structure of the agricultural and industrial production and their internal consumption in the forthcoming year.

These basic proportions of imports and exports serve for drawing up the balance-of-payments estimates; within their general frames exports and imports are not, in principle, subject to licensing; except for certain restrictions about which we will speak more herein later.

#### Exports and Imports

Without being subject to licensing exports and imports are effected by the foreign trade enterprises on the basis of their registration in the foreign trade register. Export restrictions of quantitative character exist only for some articles which are deficient in the domestic market and the import of some products is restricted with the aim to protect the balance of payments.

Namely, in order to cover the requirements of the internal market, some explicitly deficient articles are subject to the regime of prohibition and to quotas for exports (such as some raw materials and agricultural foodstuff products). The exports of such products are subject to individual licence granted by the Committee for Foreign Trade, while other products may be exported freely.

The exports of the following products have been prohibited since 1 January 1958:

- (a) Industrial products: crude oil, scrap iron, waste iron, pig iron of old machines, white and crude grey iron, raw steel, ferro-molybdenum, calcium-molybdenum, ferro-wolfram, selenium, waste of non-ferrous metals, sulphuric acid, fertilizers of all kinds, copper sulphate, electrolytic sodium hydroxide, paper and pasteboard of all sorts (including waste), except cigarette paper and kraft paper, hides, rubber, footwear of all descriptions, fat and lard, rendered butter, leaf fat, tallow, flour of all sorts, sugar, powdered milk, round timber, pit-props, chestnut and soft firewood, soft pulp wood, chestnut tanning wood.
- (b) Agricultural products: rye, barley, soya, oil-rape, sunflower seeds, colts and colt meat, calves, camomile.

Quotas are allocated for the following products:

- (i) Industrial products: brown coal, anthracite, lignite, beams, sheet-iron, iron ore, electrolytic zinc, rolled and drawn copper and copper alloy products, mercury, window-glass, nails, electric bulbs, soft sawn timber, kraft paper, woollen fabrics, cotton cloths, fabrics of artificial fibres, ready-made woollen suits, sole leather, leather footwear, molasses, meat preparations, fodder flour, fish flour, combined concentrated animal food, sugar beet pulps, oil cakes, oil seed cakes, bran.
- (ii) Agricultural products: maize, haricot beans, oats, onion seeds, winter apples, live oxen and cows, fattened sixteen to eighteen months old baby beef, beef, veal, live pigs, rams, lambs, mutton and lamb, eggs in the shell, frozen and tinned eggs, various sorts of cheese.

For the export of deficient articles the system of prohibition is to be abolished and the system of licensing is to be introduced in 1959.

No duty is paid on exports and payment of duty on imports is limited to private non-commercial imports made by residents and travellers. Preparations are being made for gradual introduction of customs duties on commercial imports as well. Motor vehicles (automobiles, motorcycles) represent the first group of imports on which payment of customs duties has already been introduced.

There is no prohibition in the imports of any products, although it existed earlier. The quota system in imports is not applicable either, and import licences are not required any more, except for imports of motor vehicles and some basic raw materials.

In order to protect the balance of payments some quantitative restrictions are applicable to imports of motor vehicles, some spare parts, equipment and industrial consumer goods.

Contracts for barter transactions - for any goods - may be concluded solely after special approval has been obtained from the Committee for Foreign Trade.

However, allocation of foreign exchange to individual groups of products and consumer goods (to the so-called "Circles") is prescribed by the foreign exchange system, but the internal distribution of lump quotas of exchange among the enterprises of one group is made without any administrative interference, and on the basis of the agreement reached by themselves. The special characteristic of the Yugoslav system of foreign exchange allocation is manifested only in determining lump foreign exchange quotas for individual groups of enterprises (for example, for the group of cotton industries, woollen fabric industries, etc.), while the further distribution among enterprises is left over to the enterprises themselves, to be arranged within their associations. This distribution of exchange available, on the basis of the agreement reached, is to the interest of the enterprises concerned, because if it were not done so, the rates of exchange would be arrived at on the basis of bidding at the meeting at the Foreign Exchange Settlement Place.

## II. Organization of Foreign Trade

### A. Function of the Government and social organs in foreign trade

#### Committee for Foreign Trade

In the organization of the Yugoslav foreign trade the administrative functions are concentrated mainly in the Committee for Foreign Trade, as a co-ordinating body consisting of the representatives of the organs of the Government administration, banks, and chambers dealing in this sector of the economy.

The Committee for Foreign Trade has, in addition to its function of co-ordination, a regulative rôle in this sector which is manifested in passing regulations or in proposing such regulations to the Government.

The Committee for Foreign Trade, in co-operation with the institutions concerned and on the basis of most extensive consultations with economists, works out the annual programme of exports and imports under the estimates of the Federal Social Plan, and takes necessary measures to assist its accomplishment.

On the basis of a fixed programme of exports and imports the Committee for Foreign Trade, in co-operation with the State Secretariat for Foreign Affairs, prepares trade and payments agreements with foreign countries and takes necessary measures for their implementation.

#### Federal Chamber for Foreign Trade

The Federal Chamber for Foreign Trade is represented by its representative at the Committee for Foreign Trade. This Chamber, in co-operation with other economic chambers (Federal Chamber for Industry, Federal Chamber for Commerce, Federal Chamber for Agriculture and Forestry, etc.); represents necessary relations between administration and enterprises, makes motions to governmental administrations to take necessary measures in case of need, and creates the necessary co-operation between enterprises, in particular between industries and general production and trade, by assisting them in solving mutual problems.

#### Banks

The part of the banks (National Bank of the FFRY, Yugoslav Bank for Foreign Trade and Yugoslav Investment Bank) is of particular importance in financing and crediting the Yugoslav foreign trade. The functions of these banks are illustrated in their names. The first of them being the central bank of the country is at the same time the centre of payments to and from foreign countries and the central clearing office and organizer of the official foreign exchange market, respectively. The second of them is the creditor and financier of foreign trade on short and medium-term bases. The last one is the financier of investments, both from domestic resources and under investment arrangements concluded abroad.

### Court of Honour

The Court of Honour, at the Federal Chamber for Foreign Trade, is the institution which is competent to pass judgment in cases when an economic organization, which is registered in the foreign trade register, offends against business moral in its activity and by such an action does harm to the reputation of the community (for example, unfair competition, etc.).

### Foreign exchange control

Foreign exchange control in the FFRY is exercised by: Federal Foreign Exchange Inspectorate of the State Secretariat for Finance, Federal Foreign Exchange Inspectorate Departments of Republican State Secretariats for Finance and National Bank of the FFRY.

While the Foreign Exchange Inspectorate exercises complete control over all participants in foreign exchange transactions (enterprises, banks, etc.), the National Bank of FFRY, and the Yugoslav Bank for Foreign Trade, under authority granted by the former, exercise control only on the basis of documents submitted by exporters and importers to the bank, i.e., they control payments for goods exported and imported, respectively.

### Customs administration

The Customs administration of the FFRY is a federal organ of the administration which is competent for customs proceedings, and as such it is under the control of the Federal State Secretariat for Finance. Customs functions are exercised through the medium of its custom-houses.

In view of the fact that, under regulations in force in the FFRY, customs duties are applicable only to imports effected by individuals (travellers in general and to parcels received from abroad), and to motor cars and motorcycles in commercial transactions, the actual sphere of action of customs organs in the FFRY is limited. However, customs organs exercise physical control over export and import of goods by checking up whether the goods being exported and imported are in conformity with the particulars and description given by exporters respectively importers in their declarations, which is important for proper application of co-efficients.

In addition, customs organs exercise foreign exchange control over travellers (import and export of foreign and local means of payment) at the time of their coming to or leaving Yugoslavia.

### B. Foreign trade network

In principle, any enterprise in Yugoslavia can engage in foreign trade business, if the conditions prescribed are complied with. The right to do foreign trade business is acquired by the act of registration in the foreign trade register, and the decision granting such registration is taken by the Committee for Foreign Trade. Registration in this register is made under special regulations, in particular on the basis of qualification of expert staff, deposit of caution money and disposition of certain amount of reserves (reserve fund).

At the time of registration the Committee for Foreign Trade considers the economic justification of the registration concerned and it may decline approval if it is found that there are not sufficient economic reasons therefor, except in cases where producing economic organizations apply for it, i.e., in which cases the Committee is not entitled to decline approval.

The development of the foreign trade network started with about ten monopolistic organizations at the time of administrative management of foreign trade (1945-1951). At present there are about 500 enterprises which have complied with the conditions prescribed and, accordingly, are registered as foreign trade enterprises in Yugoslavia.

For engaging in foreign trade transactions the following conditions shall be complied with:

- (i) The foreign trade transactions in which the economic organization intends to engage shall correspond to its economic activity, according to the registration made with the District Economic Court.
- (ii) The economic organization should be properly organized and technically equipped so as to be in the position to do foreign trade business.
- (iii) It should be equipped with suitable expert staff.
- (iv) It should be credit-worthy.
- (v) The economic organization should have available certain minimum reserves (reserve fund). This minimum is differentiated according to the types of foreign trade transactions.
- (vi) It shall deposit a fixed amount of caution money with the National Bank of the FPRY.

The Foreign Trade Register is kept by and maintained with the Committee for Foreign Trade, and each registration in this register is published in the Official Gazette of the FPRY. Against the decision of the Committee for Foreign Trade by which such registration has been declined the economic organization is entitled to lodge its complaint with the Federal Executive Council within fifteen days from the date on which the decision has been received.

The economic organization which is registered in the foreign trade register and thereby authorized to engage in export and import business may, as a rule, export and import goods without having obtained any export and import licence, respectively (export and import licences were abolished in July 1952).

Foreign trade economic organizations can independently contract business within the sphere of their activities for which they are authorized on the basis of registration in the foreign trade register (principle of specialization).

Registration in foreign trade register provides for the following transactions:

- (i) Export and import of goods.
- (ii) Representing foreign firms in the FPRY.

- (iii) International forwarding of goods.
- (iv) International transport of goods.
- (v) Re-export transactions.
- (vi) Control of quality and quantity of goods under contract.
- (vii) Investment work abroad.
- (viii) Tourist business with foreign countries.
- (ix) Other services in international trade.

Accordingly, the following organizations are considered as foreign trade enterprises:

First, exporters and importers, then representation bureaux, international forwarding agencies, enterprises dealing in international transport of goods (enterprises engaged in road, river, sea and air transport), international trade agencies (re-export enterprises), enterprises engaged in qualitative and quantitative control of goods, enterprises engaged in construction work abroad (building enterprises, projecting enterprises, assembling enterprises, enterprises for geological research work, etc.), tourist bureaux, and various other servicing enterprises providing services in international trade (e.g., shipping agencies, etc.).

As a rule, one enterprise may engage in one of the above enumerated foreign trade transactions but there are exceptions as well.

### III. Foreign Exchange System

The Yugoslav foreign exchange system in its present form was established in 1952 when the new par value of the Dinar was determined (Dinars 300.00 to US\$1.00) and when export, import and payment licences were abolished and a more or less free foreign exchange market, with fluctuating rates of exchange, through which the prevailing portion of foreign trade should have been passed, was introduced. But under the conditions of having a balance-of-payments deficit, and under accelerated development of the economy in the country, with a non-balanced demand and supply in the market, the planned foreign exchange mechanism, which otherwise met the requirements of the basic principles of a general economic system and more or less of the market economy, was unable to satisfy the requirements of the country without certain changes which were made in the foreign exchange system periodically from 1952 onwards. These changes and amendments had mainly the objective to stabilize the foreign exchange transactions by the means of subjecting exports and imports to fixed settlement rates of exchange, i.e., to average doubled official rates prevailing in 1952 (Dinars 632.00 to US\$1.00).

However, due to the disparity of prices resulting from the specific price policy and system of accumulation, and from the foreign exchange system itself which on its part hampered the influence of international market prices on internal prices, this settlement rate has been supplemented with a range of coefficients which represent a multiple rate system.

At present, the part of the free foreign exchange market has practically been reduced to the lowest possible amount of exchange to cover some non-essential imports.

A. Exchange rates

Under the Yugoslav foreign exchange regulations the following four types of exchange rates are differentiated:

- (i) Official rates.
- (ii) Rates with premium.
- (iii) Settlement rates.
- (iv) Free rates.

Please refer to the Annex attached hereto.

The official rates are calculated and published by the National Bank of the FPRY, on the ground of the official par value of the Dinar determined in agreement with the International Monetary Fund. The official par value amounts to 2.962 milligrammes of fine gold to one Dinar (or: Dinars 337,582.37 to one kilo of fine gold). The official rate is applicable to the repayment of Government public debts.

The rates with premium are official rates plus 33 1/3 per cent and 100 per cent premium, respectively, of the official rate value. The first rate, i.e., official rate plus 33 1/3 per cent premium (totalling Dinars 400 to US\$1.00) is applicable to the purchase of foreign exchange from foreign physical and juristic persons (foreign tourists, embassies, etc.) and to the sale of foreign exchange representing retransfer of unspent Dinar amounts by these persons, as well as to the purchase of foreign exchange from domestic catering enterprises (such as hotels, etc.) which render services to foreign tourists and travellers.

The second rate, i.e. official rate plus 100 per cent premium (totalling Dinars 600.00 to US\$1.00) is applicable to the purchase of foreign exchange originating from emigrants' remittances, inheritance, pensions, support, gifts and all other non-commercial receipts (invisibles) from abroad in favour of domestic individuals (residents). This rate with premium is applicable also the sale of foreign exchange to private persons for their travel expenses abroad, as well as to payments of invisibles by social organs and institutions.

The settlement rate represents the doubled official rate adjusted for the disparity of the foreign exchange concerned. The settlement rates, accordingly, vary round the level of Dinars 600 to one offset (clearing) dollar.

The list of these rates is also published by the National Bank of the FPRY, The settlement rates of the countries which have introduced convertibility for their currencies are now unified on the basis of the United States dollar, except the currencies of the countries with which the maintenance of clearing relations are continued.

As of 1 February 1959 there are not more than two basic groups of disparity rates the disparity of which, with relation to the United States dollar, is for 1 per cent and for the other 5 per cent. In addition to these two groups there is a greater disparity still for the Egyptian pound and the Turkish offset (clearing) dollar.

The tendency of the development is gradually to abandon these disparities and to convert them into rates on the basis of the United States dollar par value.

The settlement rates are applicable to payments in Dinars of equivalent for the purchase of export exchange proceeds earned both for goods and services (except catering). The National Bank of the FPRY sells to economic enterprises foreign exchange at settlement rates at special meetings of the Foreign Exchange Settlement Places, for the purchase of reproduction materials and consumer goods, if the economic organizations have before reached an agreement on the distribution among them of the exchange offered for sale at the meeting. If these organizations have not come to an agreement the rates of exchange shall be arrived at on the basis of bidding. Finally, foreign exchange for payment of import of equipment are sold direct at settlement rates.

The free rates are the ones which are arrived at by the supply and demand of foreign exchange at the so-called regular meetings of the Foreign Exchange Settlement Places, on the basis of bidding. This rate is at present considerably higher than the settlement rates level and it changes from meeting to meeting. Only a small portion of foreign trade transactions (about 1 per cent) is effected at this rate.

Since almost all requirements of the economy for foreign exchange are met by selling exchange at firm settlement rates, free rates do not, in fact, have any influence on prices.

#### B. Foreign Exchange Settlement Places

The Foreign Exchange Settlement Places were established in the middle of 1952 in order to serve as a free exchange market for the purchase and sale of foreign exchange. They were originally conceived as places at which exporters might freely sell and importers freely purchase exchange at the rates arrived at by themselves. This market was expected to fix a free foreign exchange rate which should have maintained the actual rate of the Dinar. However, on one side, due to the shortage of foreign exchange, the total amount of the exchange earned could not be assigned to exporters to trade with them at the Foreign Exchange Settlement Places and, on the other side, the foreign exchange offered by exporters at this market could not, in spite of the fact that the National Bank had intervened, meet the normal import requirements. Thus, the demand exceeded the supply, due to which the rates kept increasing.

In such a development trend the function of the Foreign Exchange Settlement Places, as a free market and regulator of foreign trade, had to be narrowed gradually. At present, exporters cannot sell foreign exchange at the Foreign Exchange Settlement Places any more, because only 1 per cent of foreign exchange earnings may be retained and used by exporters for expenses abroad incidental to their own transactions, and for some other expenses of their own. The National Bank of the FPRY is the exclusive seller of foreign exchange at these settlement places.

At the Foreign Exchange Settlement Places transactions are concluded at regular and special meetings.

At regular meetings the above-mentioned rates are arrived at freely by supply and demand of foreign exchange.

At special meetings the sale of foreign exchange is effected by the National Bank in the same way as at regular meetings, but as buyers may be only those organizations for which foreign exchange is allocated for a determined use

(sale of exchange determined purposes). For the purpose of selling and buying foreign exchange the economic organizations are grouped in about seventy groups ("Circles"), and there are as many special meetings as groups (for each group one meeting). The foreign exchange purchased at special meetings may be used only for purposes for which they have been sold. At special meetings rates are, in principle, arrived at also freely by supply and demand of exchange, but the economic organizations represented at these meetings are allowed to agree previously upon the distribution among them of the foreign exchange offered for sale. If they agree upon this distribution, the Bank sells them the foreign exchange at the settlement rate. Otherwise, the foreign exchange would be sold to the enterprises which offers the highest rate, and thereafter the remainder would be sold in accordance and in sequence to the best bidders. Since the beginning of the functioning of these meetings (the first of which was held on 1 December 1954) there has not been a single case in which the economic organizations have failed to agree upon the distribution of foreign exchange offered for sale at special meetings. To make a distinction from regular meetings it should be mentioned that special meetings are held from time to time (not regularly). At these meetings the National Bank offers for sale such amounts of foreign exchange (foreign exchange quotas) as determined by the Committee for Foreign Trade, in agreement with other competent authorities. Accordingly, this is a special form of distributing foreign exchange quotas by agreement, and under the annual plans of balance of payments.

#### C. Collection of export proceeds

Collection of export proceeds from foreign buyers is effected in the manner stipulated in the payments agreements concluded between Yugoslavia and buyers' countries. If no payments agreement has been concluded with the country of the buyer, collection of export proceeds is made in one of the free foreign exchanges.

With regard to payments there are three groups of countries, viz.:

##### 1. Payments to and from clearing countries

These payments are made in the following currencies:

- (a) In offset (clearing) dollars: Albania, Argentina, Austria, Bulgaria, Czechoslovakia, Chile, Finland, Greece, East Germany, Israel, Hungary, Mongolia, Norway, Poland, Paraguay, Rumania, USSR, Spain, Tunisia, Turkey, Uruguay.
- (b) In offset (clearing) Egyptian pounds: Egypt.
- (c) In French francs - Dinars: France (French franc area).
- (d) In Swiss francs: Switzerland.
- (e) In Hindu offset (clearing) rupees: India.
- (f) In Iraqi dinars: Iraq.

## 2. Payments in convertible foreign exchange

The United States and dollar area and Canada, Great Britain and sterling area, West Germany, Italy, Benelux countries, Sweden and Denmark: Payments and collections with these countries are effected in their convertible currencies, which may be used for payments outside the aforementioned countries as well.

Collections of export proceeds in all cases should be effected within ninety days from the date on which the goods were exported. This time-limit in justified cases may be extended by the Bank at the exporter's request.

The Bank credits the exporter's Giro account with 99 per cent of the export proceeds Dinar equivalent, calculated at the settlement rate concerned. The 1 per cent balance of these proceeds is placed to the credit of the exporter's foreign exchange account with the Bank, i.e., in foreign exchange is made available. This amount is set apart for payments of expenses abroad incidental to the exporter's own transactions or for defraying some other expenses incurred in connexion with export business. If the exporter does not utilize such foreign exchange for payments of his own it may be sold solely to the National Bank at settlement rate again.

By crediting the 99 per cent Dinar equivalent and the 1 per cent in exchange of the export proceeds the settlement between the Bank and exporter is not yet completed. In addition to this the price difference (i.e., the difference appearing between domestic and foreign prices) is paid to the exporter if the export co-efficient rate is above 1.00, i.e., if the average foreign price for the goods involved is lower than the domestic price. Conversely, if the export co-efficient rate is less than 1.00, which means that the average foreign price of the goods involved is higher, the exporter is to pay this difference to the Bank. This settlement of price differences (to which we will refer herein later) is made by exporters with the Bank as the agent with which the price difference account is kept (equalization fund), on the basis of the co-efficients determined by the Committee for Foreign Trade in agreement with the Secretariat for Finance.

### D. Payment for imports

The importer makes payments for the goods in one of the following manners:

- (i) In foreign exchange purchased at the Foreign Exchange Settlement Place.
- (ii) In foreign exchange purchased direct from authorized banks, which is, in general, made for payments of equipment. In this case the seller is the Yugoslav Investment Bank and the Yugoslav Bank for Foreign Trade, respectively. The latter is the seller only in cases of smaller investments for the purpose of increasing exports and decreasing imports.

Importers are obliged under foreign exchange regulations in force in Yugoslavia to import the goods paid for within a time-limit not longer than three months, as from the date on which the goods were paid for. If payment is made by means of commercial letter of credit, the time-limit for payment is not longer than six months, as from the date on which the covering letter of credit was established.

The Bank is, in the same way as for collections, authorized to extend these dates of payment, in justified cases and at the importer's request.

The method of payment of goods imported is the same as that applied to exports. Accordingly, payment is made in the way and in the currency stipulated in the payments agreement with the country concerned. If no payment agreement has been concluded with the country concerned, payment is made, as a rule, in free foreign exchange.

The fact that the importer had purchased and utilized the foreign exchange for payment of goods to the supplier, through the Bank, does not mean that final settlement of the underlying transaction has been completed between the importer and the Bank. Namely, within thirty days upon the importation of goods the importer is to settle with the Bank the difference appearing between the foreign and domestic prices of the goods imported. Should the import co-efficient be greater than 1.00, i.e., if the average foreign price is lower than the domestic price, the importer is to pay the price difference in Dinars to the Bank. Should, however, the import co-efficient be less than 1.00, which would mean that the average foreign price is higher than the domestic price, the importer collects the price difference from the Bank (equalization of prices).

#### E. Evidencing exports and imports

The evidencing of exports and imports required by the Bank means that the exporters must submit prescribed documents evidencing that the equivalent of the goods exported (export proceeds) has been imported into the country, and importers must submit evidence in the same way to the effect that the goods paid for have been imported.

These documents are submitted to the bank with which the exporter respectively importer maintains its Giro account.

#### F. Settlement of price difference (co-efficients)

There exist certain differences between the prices of individual types of goods prevailing in the internal market and the prices of corresponding goods prevailing in foreign markets which cannot be settled by applying the single par value, which is due to the disparity in the structure of internal prices. For some articles the foreign prices (expressed in Dinars at settlement rates) are higher and for some other articles, which is more frequent, they are lower.

In comparing internal prices with foreign ones the relation between them is established and in this manner co-efficients are determined for each group of articles. The co-efficients, in fact, represent the relation (ratio) existing between the average internal prices of certain goods and the average foreign prices "franco" Yugoslav border, converted into Dinars at the settlement rate.

By multiplying the prescribed co-efficients with the settlement rate concerned a range of multiple rates are arrived at which are applicable to the corresponding imports or exports depending upon the articles concerned. Since in most commodity transactions the purchase and sale of foreign exchange are effected at settlement rates, it becomes indispensable that additional corrections should be made in the form of a separate settlement of price differences on the basis of the co-efficients prescribed.

There are thirteen export co-efficients (excluding co-efficient 1.00) ranging from 0.60 to 2.00, viz.:

0.60	1.10	2.00
0.70	1.20	
0.80	1.30	
0.90	1.40	
	1.50	
	1.60	
	1.70	
	1.80	

The import co-efficients in a total number of eleven (excluding co-efficient 1.00), ranging from 1.00 to 3.00 are as follows:

1.10	2.00	3.00
1.20	2.50	
1.30		
1.40		
1.50		
1.60		
1.70		
1.80		

The settlement of price differences is to be effected within thirty days from the date on which the export proceeds were collected and the goods imported respectively.

This settlement is made by multiplying the sale value of the exports ("franco" Yugoslav border, at the settlement rate) with the co-efficient minus "1" (if the co-efficient is greater than 1.00). The amount so arrived at represents the price difference which is paid to the exporter.

If the export co-efficient is lower than 1.00, the exporter is to pay to the Bank the price difference which is arrived at by multiplying the sale value of the exports ("franco" Yugoslav border, at the settlement rate) with the difference appearing between "1" and the rate of the co-efficient prescribed.

In the first case the difference appearing between the foreign and domestic prices is paid to the exporter, because the latter price is higher. In the second case the exporter pays the difference appearing between the foreign and domestic prices, because the latter is lower. By this settlement domestic prices are, in fact, balanced with average foreign prices, because if it were not done so the exporter would suffer undue loss in the first case, and in the second case the exporter would have undue earnings.

The settlement for imports is made by multiplying the purchase value of the goods imported ("franco" Yugoslav border, at the settlement rate) with the import co-efficient rate minus "1", if the co-efficient is greater than 1.00. The amount so arrived at represents the price difference which the importer is to pay to the Bank.

For the import of equipment, which is paid for with foreign exchange sold to the investors by the Yugoslav Investment Bank or by the Yugoslav Bank for Foreign Trade, a uniform co-efficient amounting to 1.20 is applicable.

For the export of particular equipment, for which no special uniform export co-efficient exists (for example, export of a complete hydro-electric power plant), settlement of price differences is made by applying special co-efficients

according to the items of cost calculation (such as wages, amortization, materials, etc.), because for such exports, in view of their nature, it is impossible to prescribe a uniform co-efficient.

A similar system, i.e., settlement of price differences according to their items of cost calculation, as applicable to the export of foreign goods which have been finished in the country for account of foreign owners. At the time of importation of such foreign-owned goods - for the purpose of finishing in this country - no import co-efficient is applicable, while at the exportation of such finished goods the settlement of price differences is made, but only for the additional work done in the country (services in finishing the goods and additional materials, if added), by applying special co-efficients according to the items of cost calculation involved.

For the import of special articles, for foodstuffs in general, settlement of price differences exceptionally is not made on the basis of co-efficients but on the basis of factual differences between domestic and foreign prices.

It should be emphasized that in Yugoslavia the co-efficient system is in the course of being gradually changed to a tariff system. In this process the number and spread of co-efficients are being reduced gradually: Thus, during the last two years, the former number of thirty-five export co-efficients has been reduced to thirteen, and the import co-efficients have been reduced in number from twenty-four to eleven. In this way the former large fan of multiple rates is gradually being narrowed and necessary conditions are being created for the transfer of certain functions of foreign exchange instruments to the instruments of foreign trade and customs.

It is difficult to foresee the time that this development process will take, which certainly will depend also on material conditions and particularly on the development and structure of production and prices. However, the tendency of the development in this direction is being intensified from day to day and the measures being taken in this respect are based on this line of development.

ANNEX

Table of rates  
(by receipts and payments)

<u>Exchange rates</u>	<u>Receipts</u>	<u>Payments</u>
<u>Official rate</u>	Receipts in favour of Government.	Foreign debt service.
<u>Official rate plus 33 1/3 per cent premium</u>	From tourism, foreign travellers, catering, and diplomatic and other missions.	Re-transfer of unspent Dinar amounts representing change cashed for non-residents.
<u>Official rate plus 100 per cent premium</u>	Emigrants' remittances, maintenance, gifts and inheritances in favour of residents (physical and juristic persons), except economic enterprises.	Sale of exchange for travel to private persons - residents. Purchase of unspent portion of exchange from social organizations - institutions.
<u>Settlement rate</u>	Export proceeds and receipts for services.	Sale of exchange for payment of goods imported by Government organs and institutions, institutions with self-financing, and social organizations.  Sale of exchange for commercial imports and services.
<u>Free rate</u>		Sale of exchange at regular meetings at Foreign Exchange Settlement Places.