

GENERAL AGREEMENT ON TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1984 CONSULTATION WITH YUGOSLAVIA (SIMPLIFIED PROCEDURES)

Background Paper by the Secretariat

1. This paper is prepared in accordance with paragraph 7 of the 1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205-209), to assist the Committee on Balance-of-Payments Restrictions in taking the decision referred to in paragraph 8 of the Declaration.

I. Yugoslavia's previous consultation

2. Yugoslavia's previous consultation with the Committee was held on 16 November 1981. In its report (BOP/R/122), the Committee welcomed the abolition on 7 June 1980, of a 10 per cent import surcharge which had been in force since May 1975. This measure was linked with a devaluation of the Yugoslav currency on 6 June 1980. The Committee noted that Yugoslavia's import licensing system and import restrictions did not serve balance-of-payments purposes and that the only regulatory instrument for achieving balance-of-payments equilibrium was the allocation of foreign exchange through self-management agreements among members of republican and provincial Communities of Interest for Foreign Economic Relations. To obtain a clearer picture of this policy instrument, the Committee asked the secretariat to prepare, in collaboration with the Yugoslav authorities and in consultation with the International Monetary Fund, a factual addendum to the Secretariat background paper (BOP/W/57) describing the trade aspects of the Yugoslav exchange allocation system. The Committee encouraged the Yugoslav government to pursue stabilization and exchange rate policies that would gradually obviate the need for measures which restrict trade. The Committee recommended that the foreign exchange allocation system be simplified, rationalized and made more transparent, and that, to the extent possible, the rôle of the foreign exchange market be enhanced.

3. The factual addendum requested by the Committee on that occasion has been issued as BOP/W/57/Add.1.

II. Main changes in Yugoslavia's trade and foreign exchange policies since the last consultation

4. Yugoslavia's trade policy is pursued in the context of the economic and financial programme for 1981-1985 which has, as one of its primary objectives, a further reduction in the balance-of-payments deficit.

5. The main changes in trade and exchange allocation policy since the last consultations are as follows:

(a) Exchange régime

- (i) Under an amendment made in late 1982 to the Law on Foreign Exchange Operations and Foreign Credit Relations, regional CIFERS (Communities of Interest for Foreign Economic Relations) are no longer responsible for determining exchange retention rights among the enterprises in the regions. Instead, foreign exchange earned through exports of goods and services is allocated directly to the organizations earning the foreign exchange in accordance with uniform criteria applicable throughout the country.
- (ii) The proportion of foreign exchange earnings to be surrendered to the central government for national requirements (oil and other energy related imports, debt servicing etc.) has risen steadily from 37.9 per cent in 1982 to 54.1 per cent, leaving only 45.9 per cent of foreign exchange earnings available to enterprises to meet production needs.
- (iii) Any foreign exchange earnings greater than planned import requirements must, since 1 January 1984, be sold on the foreign exchange market. Up to 1983, co-operative arrangements between enterprises to pool foreign exchange had been allowed in some cases to earn premia, which they are no longer permitted to do.
- (iv) Since 1983, incentives have been provided to enterprises to increase their exports to convertible currency areas. Any enterprise which increases its exports to such areas by over 20 per cent in 1984 may retain the whole of the extra revenue after deduction of the proportion to be surrendered to the central government.
- (v) The amount of foreign exchange which can be used by any organization for imports or for repayment of foreign debt is determined by a formula relating foreign exchange receipts in the previous financial year to projected export earnings in the coming year. In practice this means that in 1984, for example, enterprises have to increase exports by 11 per cent in order to be permitted to import the same value of products as in 1983.
- (vi) Foreign exchange measures relating to individuals have become more restrictive. In October 1982, imports of personal belongings and gifts by Yugoslav nationals returning from abroad were limited to the equivalent of 5,000 dinars five times per year and 25,000 dinars per year for Yugoslav workers employed abroad. Direct import of goods by residents for household use was prohibited above the amounts just mentioned. At the same time, a foreign travel deposit of 5,000 dinars for the first border crossing and 2,000 dinars for any subsequent crossing in any one year was introduced; the deposits to be blocked for one year without interest. Exceptions were made for citizens

working abroad and their families, for business travel, for travel for medical treatment, and for five trips per year in "small border traffic" for people living in border regions. From January 1984, the deposit for the first trip out of Yugoslavia was abolished. Trade in foreign currencies, cheques and letters of credit among residents, and between residents and non-residents, was prohibited; exemptions from domestic sales tax for goods purchased with proceeds from the sale of foreign exchange, and exemptions from customs duties for goods imported by mail for personal use, were abolished.

(b) Import and export régime

- (i) In recent years, the number of products which can be freely imported has been increased. The "liberalized" list covered 4,542 tariff lines at end-1983, accounting for 47 per cent of the value of imports, as against 41.7 per cent in 1980. The number of products subject to quotas was reduced to 1,270 tariff lines covering 32 per cent of imports in 1983, and those subject to licensing to 74 lines accounting for 21 per cent of imports.
- (ii) Certain legal provisions in force in Yugoslavia, particularly in 1982 and 1983, tended to encourage countertrade (see L/5435) in that imports made under barter arrangements fell outwith the normal import quota system. The value of exports under countertrade had to be higher than that of imports.

6. Yugoslavia has notified details of its import quotas to the Group of Quantitative Restrictions and Non-Tariff Measures (see NTM/W/6/Rev.1) and has stated that the import quotas are enforced for economic development purposes as provided for under Article XVIII:C of the General Agreement. Products subject to import licences were notified to GATT in L/5146/Rev.1.

7. Import and export policy in Yugoslavia is determined by the Federal Assembly in co-operation with assemblies of socialist republics and regions on the basis of consultations among national and regional administrations and the "organisations of associated labour" which form the basic economic units in Yugoslavia. Within the framework of the five-year programme established for 1981-85, the various organizations co-ordinate and plan the value or volume of imports and exports envisaged each year on the basis of the material balances of particular goods (the balance of production, imports, exports and consumption). However, the overall imports for each year and the priorities regarding goods to be imported must be established bearing in mind the foreign exchange constraints mentioned above.

III. Recent Developments in Yugoslavia's Economy and Trade

8. Since 1979 Yugoslavia has followed an economic austerity policy which slowed substantially economic expansion. The economy recorded modest real GDP rates in 1980 ($2\frac{1}{2}$ per cent) and 1981 ($1\frac{1}{2}$ per cent), and virtually stagnated in the past two years. The slump has been particularly marked in the industrial sector which in 1982 and 1983 has also suffered from low

demand abroad. At the same time, unemployment is reported to have increased substantially and relatively high inflation rates have been registered (consumer prices rose 40 per cent in 1981, 33 per cent in 1982 and 39 per cent in 1983). A clear improvement in the country's external payments position has however been obtained.

9. The trade deficit has gradually been reduced from its record US\$6.4 billion in 1979; it narrowed to US\$3.2 billion in 1982 and to about US\$2.0 billion in the following year.¹ In volume terms, imports have been declining since 1979; they were down 10 per cent in 1982 and 5 per cent in 1983, to their lowest level in eleven years. Declines in imports of equipment and intermediate goods were particularly sharp, reflecting the weakness of domestic investment and industrial activity. The volume of exports also fell in 1982 (by 7 per cent) and stagnated in 1983; manufactured exports were down in both years, but agricultural exports recovered vigorously last year. In dollars, the import bill was reduced by 15 per cent in both 1982 and 1983, while much lower declines were registered for export earnings (6 and 9 per cent, respectively).

IV. Effects of the measures

10. Some liberalization has taken place in Yugoslavia's trade régime. The measures taken in relation to the foreign exchange régime have also resulted in some simplification and rationalization of the foreign exchange allocation system, and measures have been taken to re-establish a foreign exchange market.

11. However, in overall terms the foreign exchange policy pursued by Yugoslavia has become more restrictive, during a period when the trade and current account balances have improved markedly. Import possibilities are now strictly tied to export growth and the share of foreign exchange earnings which can be retained by producing organizations has been steadily reduced. Import possibilities for consumer goods have particularly been reduced by the introduction in 1982 of the limit on personal imports and the deposits required for citizens travelling abroad. In addition, the operation of the consultative mechanisms provided for in the self-management planning system of Yugoslavia is likely to favour imports of industrial inputs over consumption goods.

¹ Trade balances are here based on customs returns: exports f.o.b. and imports c.i.f..

² The use of different exchange rates can result in wide differences in Yugoslavia's trade data in value terms from one source to another.