

GENERAL AGREEMENT ON

RESTRICTED

TARIFFS AND TRADE

BOP/302

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Limited Distribution

Committee on Balance-of-Payments Restrictions

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CONSULTATION WITH YUGOSLAVIA UNDER ARTICLE XVIII:12(b)

Statement by Yugoslavia under Simplified Procedures for Consultations

Balance of Payments

1. In the period 1965-1989 the current account showed a surplus. Over the first ten months of 1990 current transactions registered a US\$690 million deficit.

Balance of Payments of Yugoslavia, 1985-1990 (I-X) US\$ millions

<u>Year</u>	<u>Current account balance</u>	<u>Trade balance</u>	<u>Balance on invisibles</u>
1985	833	-1,601	2,434
1986	1,100	-2,012	3,112
1987	1,219	-1,207	2,426
1988	2,487	-550	3,037
1989	2,427	-1,442	3,869
1990 (I-X 1990)	-690	-3,301	2,611

*US\$1 = current exchange rate

Source: National Bank of Yugoslavia

2. The increased current account surplus in 1986 was the result of a high growth of receipts on invisibles (a US\$678 million increase of the surplus over 1985).

3. In 1987 the current account surplus continued to grow due to the reduced trade balance deficit. At the same time the balance on invisibles was reduced as compared to 1986 primarily because net foreign exchange receipts on account of workers' remittances were lower.

4. Most of the increase of the current account surplus in 1988 was due to a more balanced trade with foreign countries. The trade deficit was reduced by US\$657 million relative to 1987. A higher surplus on invisibles as compared to the preceding year, by US\$611 million, was also registered.

5. The slight decline of the current account surplus in 1989 was due to the fact that although there was an increase in the foreign trade deficit there was at the same time a considerable increase of the surplus of the balance on invisibles.

6. The results registered over the first 10 months of 1990 show a current account deficit of US\$690 million which is primarily due to the high increase of the foreign trade deficit as compared to the same period in the preceding year (the export growth rate was 7.5 per cent and that of the import 28 per cent).

7. The foreign trade balance registered a deficit throughout the 1985-1990 period.

Foreign Trade Balance of Yugoslavia, 1985-1990 (I-X)
US\$ millions

Year	Exports of goods	Imports of goods	Trade balance	Coverage of imports by exports
1985	10,622	-12,223	-1,601	86.9
1986	11,084	-13,096	-2,012	84.6
1987	11,803	-13,010	-1,207	90.7
1988	12,779	-13,329	-550	95.9
1989	13,560	-15,002	-1,442	90.4
1990(I-X)	11,358	-14,659	-3,301	77.5

*US\$1 = current exchange rate

Source: National Bank of Yugoslavia

8. In 1988 the trade balance registered a US\$550 million deficit. Exports of goods rose by 8.3 per cent and imports by 2.5 per cent and the highest coverage of imports by exports rate (95.5 per cent) was achieved in the whole 1985-1990 period.

9. Imports in 1985 were stepped up with a view to the recovery of production, the faster structural adjustment of the economy to technological development, as well as the better supply of the domestic market. As a result of this, imports grew at a rate of 12.6 per cent in nominal terms, whereas exports grew at a slower rate of 6.1 per cent.

10. Over the first ten months of 1990 a trade balance deficit of US\$3,301 million was registered as a result of the growth of imports by 28 per cent and the far lower growth of exports - 7.5 per cent relative to the same period in the preceding year. The import by exports coverage rate was 77.5 per cent (a decline relative to the first ten months of 1989 - 92.2 per cent).

11. The most important items of invisible earnings continued to be workers' and emigrants' remittances, tourism and transport, and those of invisible expenditure: interest payments on foreign loans, payments for goods and services by drawings on private foreign currency accounts, payments for transport services, etc.

Balance on Invisibles of Yugoslavia for the period 1985-1990 (I-X)
US\$ millions

Year	Receipts on invisibles	Expenditure on invisibles	Balance
1985	7,104	-4,670	+2,434
1986	8,676	-5,564	+3,112
1987	9,026	-6,600	+2,426
1988	10,174	-7,137	+3,037
1989	12,939	-9,070	+3,869
1990(I-X)	15,237	-12,626	+2,611

*US\$1 = current exchange rate

Source: National Bank of Yugoslavia

12. In 1988 net receipts on invisibles increased by 25.2 per cent primarily due to the increase of tourist services (21.3 per cent) and the improved net receipts from workers' remittances.

13. In the area of invisible transactions in 1989 foreign currency earnings were by US\$2,765 million or by 27.2 per cent higher than in the preceding year. Expenditures on this basis were by US\$1,933 million higher and had the same growth rate, 27.1 per cent. These trends in invisible transactions resulted in a US\$3,869 million surplus, which is by US\$832 million higher than in the preceding year, i.e. a growth of 27.4 per cent.

14. In the period January-October 1990, as compared to the same period in the preceding year, the invisible transactions sector registered high growth both as regards receipts (47.3 per cent) and as regards expenditures (76.4 per cent). The high receipts stem from remittances on the basis of the elimination of "private trading", the legalisation of the free purchase and sale of foreign means of payment at domestic banks, as well as from lending interest rates due to the increase in foreign exchange reserves.

15. Current account trends with the convertible currency area, where the external liquidity problems of the country are most pronounced, show considerable oscillations, although a constant surplus trend is evident.

**Current Account Balance of Yugoslavia with the
Convertible Currency Area, 1985-1990 (I-X)**
US\$ millions*

Year	Current account balance	Trade balance	Balance on invisibles
1985	344	-1,771	2,115
1986	245	-2,490	2,735
1987	1,067	-1,038	2,105
1988	2,210	-588	2,798
1989	2,010	-1,452	3,462
1990 (I-X)	-930	-3,347	2,417

*US\$1 = current exchange rate

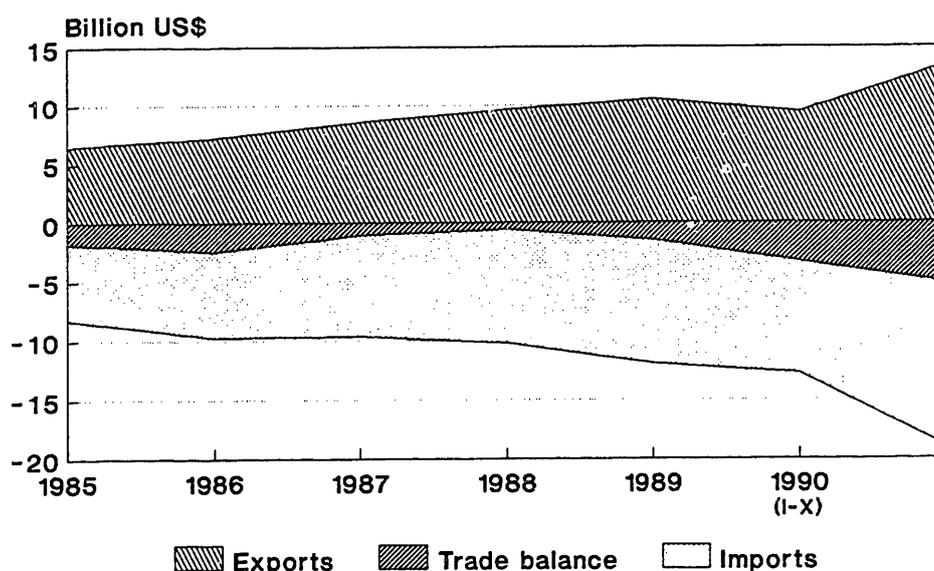
Source: National Bank of Yugoslavia

16. The recorded current account surplus with the convertible currency area in 1988 was US\$2,210 million. Compared to the surplus from the preceding year the increase was 113.1 per cent as a result of the reduced deficit on visibles by US\$480 million, the higher net receipts from services by US\$289 million, of remittances by US\$499 million and of higher net interest payments by US\$95 million.

17. In 1989, on account of invisible transactions, a higher surplus was registered in trade with the convertible currency area, by US\$644 million, i.e. by 23.7 per cent. Although the trade deficit increased by US\$864 million in the same period, these trends resulted in a balance of payments with the convertible currency area of US\$2,010 million.

18. In the period January-October 1990 the current account with the convertible currency area registered a deficit of US\$930 million, a significant decline as against the US\$2,010 million surplus of the preceding year. The trade deficit was US\$3,347 million, i.e. by US\$2,447 more than in the same period in the preceding year. In the invisible trade sector about 40 per cent less net revenue was earned, primarily owing to extensive sales of effective foreign currency to private individuals (about US\$2 million).

Yugoslavia's trade balance with the
convertible currency area
1985 - 1990 (I-X)



Yugoslavia's Trade Balance with the Convertible Currency Area,
1985-1990 (I-X)
US\$ millions

Year	Export of goods	Imports of goods	Balance	Share of exports in imports
1985	6,496	-8,267	-1,771	78.6
1986	7,249	-9,739	-2,490	74.4
1987	8,572	-9,610	-1,038	89.2
1988	9,624	-10,212	-588	94.2
1989	10,519	-11,971	-1,452	87.9
1990 (I-X)	9,404	-12,751	-3,347	73.8

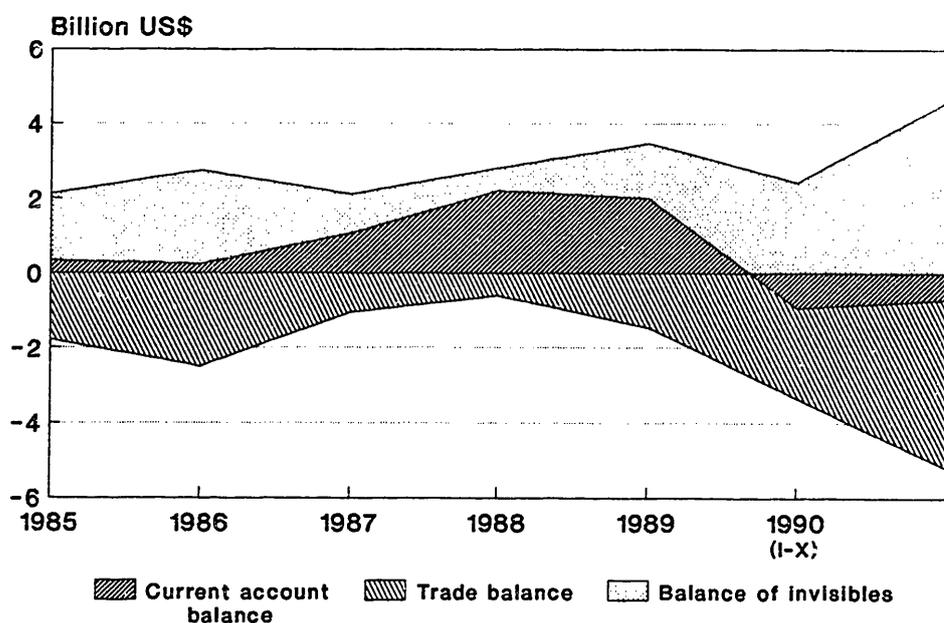
*US\$1 = current exchange rate

Source: National Bank of Yugoslavia

19. In 1989 exports to the convertible currency area had a high growth rate of 9.3 per cent in nominal terms. At the same time, imports grew at a much faster pace, with the nominal rate of growth being 17.2 per cent. The coverage of imports by exports of goods fell from 94.2 per cent in 1988 to 87.9 per cent in 1989.

20. Over the first ten months of 1990 goods valuing US\$9,404 million were exported to the convertible area. As compared to the same period of the preceding year this was an increase of US\$1,187 million i.e. by 14.5 per cent. Imports went up by US\$3,634 million or by 39.8 per cent. The coverage of imports by exports of goods fell from 90.1 per cent which was the figure for the same period of the previous year, to 73.8 per cent.

Current account balance of Yugoslavia -Convertible currency area-



Foreign Exchange Reserves

21. In 1986 the level of foreign exchange reserves increased by US\$466 million due to increased foreign exchange receipts on account of current transactions, to be followed in 1987 by a decrease of US\$1,074 million due to considerable higher payments to foreign countries within credit-financial relations. In 1988 current transactions with the convertible currency area recorded a high surplus (US\$2,210 million), and net obligations under credit-financial transactions were considerably lower, so that foreign exchange reserves went up by US\$1,549 million. In 1989 foreign exchange reserves further increased by US\$2,835 million, due to the high surplus on current transactions with the convertible currency area and lower net credit-financial obligations to foreign countries.

22. Over the first ten months of 1990 foreign exchange reserves rose by a further US\$3,332 million primarily due to the inflow of foreign capital (on account of imports of goods with deferred payment and advance payments taken for future goods exports), while current transactions showed a deficit of US\$930 million.

Foreign Debt

23. Net foreign indebtedness increased in 1986 and particularly in 1987, despite the concurrent surplus on the current account. In 1988 the foreign debt was considerably reduced and this continued in 1989 as well. The reduction of the debt was due to higher payments of obligations under foreign medium-term and long-term credits.

End of Year Position

US\$ millions

Description	1985	1986	1987	1988	1989	1990 I-X
Net foreign indebtedness	17,935	18,428	19,549	16,830	15,214	14,814
- total debt ¹	19,837	20,590	21,961	20,220	18,569	17,992
- credits granted to foreign countries ²	1,902	2,162	2,412	3,390	3,355	3,178

Source: National Bank of Yugoslavia

Year	Level of indebtedness ³ (per cent)
1985	33.8
1986	36.4
1987	35.5
1988	32.9
1989	31.8 ⁴
1990(I-X)	24.5

Source: National Bank of Yugoslavia

- 1 Includes the long-term, medium-term and short-term convertible and non-convertible currency debts. The figures are based on the statistical rate of exchange until 1986 and as of 1986 on the current rate of exchange.
- 2 The figures are based on the statistical rate of exchange until 1988 and on the current rate for the other years.
- 3 The total (convertible and non-convertible) level of indebtedness, including refinancing with "net" remittances, debt reduction on account swaps and repayments under the bridging credit.
- 4 Includes repayments under swaps and bridging credit.

24. In the period 1986-87 the level of indebtedness increased somewhat as compared to the preceding year as a consequence of the faster growth of annual repayments than of foreign exchange revenue.

25. In 1988 and 1989 the level of indebtedness showed a slight downward trend while in the first ten months of 1990 it fell considerably.

Measures to remedy the situation

26. In December 1989, at the proposal of the Government, the Yugoslav Federal Assembly adopted the Programme of Measures for the Implementation of the Economic Reform.

27. The basic objective of the reform encompassed a number of actions aimed at the accelerated transformation of the existing economic system and its adaptation to the contemporary needs of Yugoslav society and its more efficient integration in the world market of goods and services.

28. To that end a number of basic economic and system laws were adopted whereby conditions were created for the establishment of an integrated market and the strengthening of the autonomy of economic agents in all areas of economic life:

- Law on Enterprises (Official Gazette of the SFRY Nos. 77/88, 40/89 and 46/90) creating the possibility for setting up enterprises in all types of ownership, i.e. property (private property, social property, cooperative and mixed property).
- Law on Social Capital (Official Gazette of the SFRY Nos. 84/89 and 46/90), its objective being to speed up the process of privatization and the restructuring of ownership of Yugoslav enterprises by sales of shares to workers employed in the enterprise, to other physical or legal domestic or foreign persons, or by the public auctioneering of stock.
- Law on Foreign Trade Operations (Official Gazette of the SFRY, No. 63/89) which establishes the basis for a considerable liberalization and deregulation of foreign trade operations and hence simplifies the foreign trade procedures and conditions of operation.

29. The mentioned law introduced a number of important changes in the mentioned field, first of all national treatment for foreign firms in respect of their establishment and business activities in the territory of Yugoslavia, and equal treatment of all foreign trade enterprises irrespective of the type of ownership.

30. Another substantial change this law brings is the comprehensive and extensive liberalization of imports whereby the percentage of free imports rose from 10 per cent (end of 1987) to 90 per cent (end of 1990).

- Law on Foreign Investments (Official Gazette of SFRY, No. 77/88) which has considerably liberalized the foreign investments régime primarily through the introduction of national treatment for foreign firms, the abolition of the time

limit for foreign investments, of obligations pertaining to the repatriation of capital and profit and by a significant simplification of procedures related to foreign capital investment.

31. Parallel to the creation of systemic conditions a process of implementation of appropriate current economic policy measure also began. Its main thrust was geared to achievement of the following aims:

- i) anti-inflationary financing;
- ii) identification of all deficits (in the public sector, the banking system, enterprises) and their covering from real sources;
- iii) establishment of a market of money and securities, operation of the capital market;
- ix) restrictive monetary and fiscal policies;
- v) greater import liberalization;
- vi) structural changes in the economy;
- vii) initiation of a new investment cycle; and,
- viii) removal of all obstacles for the mobilization of capital in all types of ownership and the implementation of social welfare programmes.

32. The synchronized action of macroeconomic policies resulted, over a relatively short period of time, in the reduction of price growth and deflation, attended by a considerable rise in foreign exchange reserves, the maintenance of a stable rate of exchange for the dinar and the convertibility of the national currency.

33. One of the most important segments of the Programme of Economic Reform centred around the adoption of the final part of the programme for curbing inflation. Within its framework, as of December 1989, dinar convertibility was introduced as a condition for the consolidation of the effects of the harnessing of inflation; the dinar was denominated; it was pegged to the German mark for the ensuing six months in a ratio of 7:1; the prices were frozen of basic inputs (coal, products and services of the power generation industry, in the oil industry, in railway and PTT traffic, in ferrous and non-ferrous metallurgy, the prices of pharmaceuticals and of public utilities); monetary policy was separated from fiscal and credit policies; a restrictive monetary policy was introduced and the creation of money through primary issue associated with, primarily, foreign exchange transactions; the operation of the federal and all other budgets and funds was put on the basis of real sources of funds; personal incomes were limited over a period of the ensuing six months.

34. This concept of economic policy which was implemented throughout 1990 and the basic characteristic of which was deflationary consumption management i.e. the financing of consumption from real sources, followed by

an extensive liberalization of imports, the elimination of non-profitable businesses and the setting in motion of a restructuring process, inevitable entailed a decline of the social product in 1990.

35. In addition, in the second half of 1990 there were a number of adverse developments. Namely, in the area of public consumption and salaries, the planned frameworks - envisaged by macro-economic policies - were exceeded, which was not based on increases of production, labour productivity and income. In that way the economy as a whole was faced with an additional problem - the lack of resources for development.

36. A serious cause of the negative results in the second half of 1990 was also the Near East crisis and the drought in the country. A special problem was the crisis related to Iraq, the negative balance of payments results of which were US\$1.3 billion in 1990, while the additional costs resulting from the drought amounted to US\$1.7 billion.

37. Since changes of the dinar exchange rate were expected, a large number of enterprises stopped bringing foreign exchange into the country (i.e. made advance foreign payments so as to benefit from the lower exchange rate) and in the last few months of 1990 there was a rapid outflow of foreign exchange as citizens withdrew effective foreign currencies from banks.

38. On the whole this led to a decrease of foreign exchange reserves from cca. US\$10 billion in August 1990 to some US\$7 billion at the end of the year.

39. All the mentioned elements constituted supplementary factors which led to the attainment of less favourable than planned results - a larger drop of production and of the social product, the aggravation of liquidity, lower than expected results in the balance of payments and foreign exchange balance of the country, and generated new inflationary tendencies.

40. A major problem - downward trend in industrial production, which started in the first quarter of 1989 - grew worse due to the implementation of the Programme of Economic Reform in 1990. This was a logical consequence of the stabilization and anti-inflationary nature of macro-economic policies. The restrictive policy in the area of domestic demand, increased export competition, the initiation of the process of structural changes in the domestic economy, the abandoning or reduction of production activities which could not adapt to more stricter market criteria, all contributed to a 10.9 per cent fall in production.

41. According to developments in industrial production, which accounts for around 45 per cent of the social product as well as to development in other economic activities, the estimated real decline of the social product in 1990 ranged between 7-8 per cent.

42. The implementation of the economic reform in 1990 practically created the necessary prerequisites for changing the economic and political systems. The adverse developments and failures registered in the second half of the previous year were, first and foremost, the result of a rapid deterioration of political relations in Yugoslavia, i.e. the strengthening

of republican statisms, as well as of the lack of readiness to engage in constructive cooperation on the part of all factors in the country.

43. Irrespective of the fact that in the previous year there were deviations from some of the objectives of the economic reform and departures from some vital targets of the stabilization model, macro-economic policy projections for 1991 basically rely on the same model according to which the reform evolved in 1990, with appropriate modifications and changes stemming from an analysis of past developments and the situation in the Yugoslav economy.

44. The main prerequisite for implementing further changes in the economy is the confining of inflation to a rate of 40 per cent annually which should result from the consistent operation of all macro-economic policies. Price stability is a prerequisite for attaining further changes in the economy, particularly as regards the accelerating of the process of structural changes and enhancing the efficiency of economic performance.

45. Macro-economic policy for 1991 involves measures aimed at:

- pursuing a dinar exchange rate policy designed to attain the planned balance of payments projections;
- confining total consumption to the available material framework;
- strengthening the economy of supply given the attained level of liberalization of foreign economic relations and strong export incentives;
- maintaining the attained level of liberalization and the further development of the market of goods and services as an integral part of the world market;
- initiating the process of rehabilitating commercial banks and a certain number of enterprises;
- developing a financial market;
- reducing the price of money and capital to a realistic level;
- creating conditions for the development of a labour market with an active rôle of welfare policy;
- encouraging the process of structural changes, primarily on the basis of ownership changes.

46. In the area of foreign economic relations, and within the commitment to an open economy, the attained high level of import liberalization will be maintained, and export interest will be enhanced by strengthening competition and stricter sale conditions in the domestic market. Therefore within the dynamic increase of trade with foreign countries we count on growth in exports of goods and services of 9.2 per cent (to the hitherto convertible currency area 14.1 per cent) and imports of goods and services of 14.9 per cent (to the hitherto convertible currency are 16.6 per cent),

with a deficit in current transactions of US\$1,245 million (730 in the convertible currency area).

47. The policy of export incentives through facilities for the payment of customs duties and other import charges, customs drawbacks and refunds of other charges, the reduction of the overall import burden, will be conducted along these lines, and additional incentives are planned for exports of agricultural foodstuffs, primarily in order to offset the negative effects of high import barriers maintained by Yugoslavia's partners on a long-term basis and which are certain to exist in the next year also in view of the present stalemate in the Uruguay Round negotiations on agriculture. Also, in keeping with the commitments on opening the Yugoslav economy and its inclusion into European integration processes, a policy will be pursued of selective protection of domestic production, namely, the existing system will gradually approach the level of protection maintained by Yugoslavia's main foreign trade partners.

48. In this context, the existing GATT rules and disciplines as well as the results which will hopefully be the outcome of the Uruguay Round of negotiations in this area, will constitute one of the essential determinants of the presented policy, its instruments and level.

49. In the area of investment policy efforts will be exerted to secure, through financial and commodity credits from foreign countries and joint ventures with foreign partners, a net inflow of capital of at least US\$2-2,5 billion.

50. This could, with the synchronized strengthening of market criteria, the restructuring of the economy, the confinement of consumption to realistic frameworks, be expected to result in a realistically lower social product growth than last year, namely by about 2.5 per cent.

51. However, the main prerequisite for the efficient operation of consistent and harmonized macroeconomic policies in 1991 and the attainment of efficient results will continue to be based on the political consolidation of the situation in the country, the unhindered functioning of the unified Yugoslav market and the consistent implementation of the basic constitutional functions of the Federation.

THE MAIN CHARACTERISTICS OF REGULATING FOREIGN TRADE AND FOREIGN CURRENCY TRANSACTIONS

Legal and administrative basis for applying trade restrictions

52. The following main laws regulating foreign economic relation shall be in force in 1991:

- the Law on Foreign Trade Transactions ("Official Gazette of SFRY, No. 63/89):
- the Law on Foreign Credit Transactions ("Official Gazette of SFRY", No. 84/90);
- the Law on Foreign Currency Transactions ("Official Gazette of the SFRY", Nos. 66/85, 71/86, 3/88, 59/88, 82/90);
- the Law on Temporary Measures of the Common Foreign Exchange Policy and Balance of Payments Projection of Yugoslavia for 1991 ("Official Gazette of the SFRY", No. 84/90).

53. A common characteristic of all these laws is that their adoption has created the conditions for promoting external economic relations and possibilities for the greater openness of Yugoslavia towards the world. This primarily refers to the arrangements contained in the area of investment of foreign capital in Yugoslavia, the increased degree of deregulation, import liberalization, possibilities for cooperation with foreign partners.

54. In keeping with the general orientation to constantly elaborate and improve the existing legislation in this area - proceeding from the needs of social practice and assessments of the results - a procedure is in course for amending that legislation, aimed at creating conditions for the further promotion of foreign economic relations.

Essential characteristics of the foreign trade régime

55. Pursuant to the Law on Foreign Trade Transactions, exports and imports of goods may be free (LB), subject to a quota régime (determined on the basis of value or quantity, Qq, Qv) or subject to a licence régime (D).

56. In the Yugoslav foreign trade régime, exports and imports of goods are, as a rule, free, and only exceptionally can they be regulated by restrictive régimes: in the case of balance-of-payments difficulties, i.e. a serious threat to foreign exchange reserves; the implementation of obligations undertaken under international treaties; the structural adjustment of domestic production; the protection of national resources, and the supply of the domestic market with strategic products.

57. A major change with regard to the past three-year period is the abolishing of the régime of conditionally free imports (LBO) which was an instrument which tied imports and payments for such imports to the generated export earnings (at enterprise level), and thereby constituted an instrument of balance of payments restriction. However, the régime of conditionally free imports as a category of import regulation has, under

the provision of the Law on Foreign Trade Operations, been retained only in the form of a temporary measure aimed at removing possible disruptions in Yugoslavia's balance of payments. According to that provision of the Law, the Government of Yugoslavia - the Federal Executive Council - may, when certain conditions arise, determine which goods will be subject to the conditionally free import régime (LBO) and determine that certain goods may be imported under a specified scope of payments, i.e. determine that payments of services abroad be carried out depending on the generated foreign currency inflow.

58. The régime of export and import licences (D) refers to specific goods the circulation of which is, under international treaties ratified by Yugoslavia, subject to the obligation of control (narcotic drugs), as well as for the purpose of regulating exports and imports of armaments and military equipment, exports and imports of historic and artistic works and some precious metals.

59. Payments of imports of goods and services (as well as payments under other arrangements on trade in invisibles) are free. Goods under the quota and licence régimes are paid for up to the level of the specified rights to imports and up to the quantities, i.e. values specified in the quotas, i.e. licences.

60. According to the Law on Foreign Exchange Operations in force, a commercial bank authorized for foreign transactions makes foreign payments subject to orders of enterprises and other legal persons which are obliged to pay in the dinar equivalent of the foreign currency according to the selling rate effective on the date of making foreign payments.

61. Otherwise, imports of goods may also be channelled by issuing accordance (S), primarily with the aim of promoting direct purchases from countries of products-origins (rather than making purchases through mediators), and to contribute to the elimination of balance-of-payments disruptions while taking into account the objectives of increasing imports from developing countries.

62. Under the Programme of Economic Reform, the process of large scale import liberalization started in Yugoslavia in 1989.

63. At the beginning of 1989, 64.7 per cent of the totally imported goods in 1989 were subject to the free import régime (LB), 17.9 per cent to the conditionally free régime (LBO), 18 per cent to the quota régime, and a negligible percentage to the import licence régime.

64. In 1989, the successive implementation of the liberalization of imports of goods was fulfilled (seven phases), according to the following schedule:

- by September 1989, the régime of conditionally free imports was abolished and the majority of imports of goods was shifted to the free import régime;

65. At the end of 1989, 88 per cent of the import of goods in that year was subject to free importation and 12 per cent to the quota régime (of

which import of equipment accounted for the highest percentage and the import of consumer goods for the lowest).

66. Following the alterations in the import régime effected in the course of 1990, by the end of that year 87.5 per cent of all import of goods was free, 12.5 per cent was subject to quotas and a negligible percentage to import licences. The extent of liberalization was the highest for consumer goods (94.5 per cent) and the lowest for equipment (77.7 per cent of that imported freely and 22.2 per cent on the basis of quotas).

67. Future actions in the field of import liberalization geared primarily to moving goods from a quota régime to a free import régime will be decided upon in view of several considerations, including the results of complex studies on the position and projections of the balance of payments, long-term protection of the industries and the outcome of the GATT Uruguay Round talks particularly in respect of market access and the safeguard against a sudden surge of imports under conditions of fair competition.

68. The above stems mainly from the fact that the so-called "highly sensitive products" affecting the balance of payments such as farm products, foods, iron and steel products, non-ferrous metal products, metalworking industry products, certain chemicals and textiles still fall under the quota régime.

69. The import liberalization implemented so far has covered 5,679 customs tariff items worth US\$9.008 billion in 1989 imports.

Overview of the liberalization process 1989 and 1990
Share of import under individual import régimes in overall import of goods *

Import Régime	01.01.1989		11.03.1989		08.04.1989		06.08.1989		19.08.1989		31.08.1989	
	US\$ million	%										
LBO	3,715.8	27.3	2,436.7	17.9	1,905.6	14.0	1,088.9	8.0	408.3	3.0	-	-
LB	7,486.1	55.0	8,806.4	64.7	9,391.6	69.0	10,548.6	77.5	11,465.3	83.5	11,873.6	86.5
Qq,Qv	2,409.2	17.7	2,368.0	17.4	2,313.9	17.0	1,973.6	14.5	1,737.5	13.5	1,737.5	13.5
D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ¹	13,611.1	100.0	13,611.1	100.0	13,611.1	100.0	13,611.1	100.0	13,611.1	100.0	13,611.1	100.0

Import Régime	15.09.1989		31.12.1989		31.03.1990		26.07.1990		10.10.1990	
	US\$ million	%								
LBO	-	-	-	-	-	-	-	-	-	-
LB	11,841.7	87.0	11,977.8	88.0	13,672.1	88.5	13,527.8	87.6	13,520.6	87.5
Qq,Qv	1,769.4	13.0	1,633.3	12.0	1,776.6	11.5	1,920.9	12.4	1,928.1	12.5
D	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
TOTAL ¹	13,611.1	100.0	13,611.1	100.0	15,448.7	100.0	15,448.7	100.0	15,448.7	100.0

* Calculated on the basis of data of the Federal Customs Administration. The share of imports under particular import régimes in total imports of goods depends on the import structure in the period under review.

¹ Total value of imports in the previous calendar years (1988-US\$13,511.1 million)
(1989-US\$15,448.7 million)

Source: Federal Secretariat for Foreign Economic Relations.

Special forms of foreign trade

70. The new Law on Foreign Trade Transactions enacted in 1989 has substantially condensed the number of provisions applicable to special forms of foreign trade including long-term manufacturing cooperation, compensation deals and trade-fair compensations deals, re-export deals and local border trade.

71. Since the foreign exchange market was set in operation in May 1989 followed by a comprehensive import liberalization along with a liberalization of regulations governing the right of enterprises to engage in foreign trade, the interest of enterprises in special forms has diminished with a concurrent rise in the share of standard forms.

72. In 1990 trade-fair compensation deals almost disappeared, while the volume of local border trade shrank by one third compared to that in 1989. The relative share of other special forms in overall trade also declined.

Tariffs and other import charges

73. The average tariff rates on Yugoslav imports weighted against the value of imports amounted to 7.08 per cent over the 1985-1989 period, i.e. 6.3 per cent in 1985, 7.4 per cent in 1986, 7.8 per cent in 1987, 7.3 per cent in 1988 and 6.8 per cent in 1989.

74. The relatively low tariff rates are mainly attributable to the structure of Yugoslav imports. In fact, the highest percentage share in overall Yugoslav imports (around 75 per cent) is accounted for by raw materials and semi-manufactures with an average tariff rate of 8 per cent, followed by equipment with a 15 per cent share and an average tariff rate of 13 per cent and by consumer goods with a 10 per cent share and an average rate between 17-25 per cent.

75. The low level of tariff rates is further explained by major exemptions from customs duty payment provided under the Law on Customs ("Official Gazette of the SFRY" Nos. 10/76, 36/79, 52/79, 12/82, 61/82, 7/84, 25/85, 38/86, 28/88, 40/89 and 70/89) and under the Law on Customs Tariffs ("Official Gazette of the SFRY" Nos. 81/87, 34/89 and 55/89) in particular:

- duty exemption and/or lower tariff rates on import of equipment for the needs of the economy in the underdeveloped regions;
- exemption from payment of duty on import of goods for the needs of the Yugoslav People's Army; the Secretariat of Internal Affairs; penitentiaries; organizations importing goods exclusively for production of armaments and military equipment; organizations engaged in scientific research, educational or cultural activities or organizations receiving goods from abroad free of charge for scientific, educational, cultural, sports-related, humanitarian, health and social welfare purposes; elimination of the effects of natural disasters and the like;

- exemption from payment of duties on import of goods by natural persons under special circumstances.

76. Alongside customs tariffs, import duties also include:

- a border tax adjustment duty under the Law on Special Duties for Balancing of Taxation Levies on Imported Goods ("Official Gazette of SFRY" No. 63/80) in the amount of 7.5 per cent in 1990 ("Official Gazette of the SFRY" Nos. 11/90, 14/90 and 47/90);
- a special tax on imported goods (under the Law on Special Tax on Imported Goods in "Official Gazette of the SFRY" No. 31/70) in the amount of 7.5 per cent in 1990 (Official Gazette of the SFRY" Nos. 11/90, 14/90 and 47/90).
- a customs record tax (under the Law on Customs) in the amount of 1 per cent in 1990 ("Official Gazette of the SFRY" No. 88/89);
- a special levy on import of certain farm products ("Official Gazette of the SFRY" No. 70/89) listed in the "Official Gazette of the SFRY" Nos. 75/89, 83/80 and 3/91.

77. In 1990 the rates of these non-tariff duties were substantially reduced relative to 1988 and 1989 levels from 21 per cent in 1988 and 1989 to 16 per cent in 1990.

**Average Realized Tariff Protection by Customs Tariff Headings
(in per cent)**

	Customs tariff	1985 Tariff rate	1986 Tariff rate	1987 Tariff rate	1988 Tariff rate	1989 Tariff rate
I	Live animals and products	7.6	9.5	9.6	8.9	10.3
II	Products of plant origin	3.6	2.3	3.3	3.0	3.4
III	Fats, oils and waxes	5.1	4.5	4.3	3.8	7.3
IV	Foods and tobacco	6.1	5.8	7.3	7.5	9.7
V	Mineral products	1.3	1.1	1.2	1.2	1.0
VI	Chemicals	6.1	6.6	6.5	6.3	4.5
VII	Plastics and rubber	9.7	9.9	9.9	10.0	8.2
VIII	Leather, furs and products	2.1	4.5	5.6	4.1	1.9
IX	Wood and lumber products	5.2	5.2	5.6	4.9	3.7
X	Pulp, paper and products thereof	8.2	8.8	8.8	8.8	7.5
XI	Textile fabric and products thereof	7.2	9.5	11.6	8.5	7.5
XII	Footwear, hats, feather and other products	17.7	19.1	18.7	18.5	17.1
XIII	Plaster and stone products	11.1	12.2	11.8	11.5	11.4
XIV	Pearls, precious stones and jewellery	8.5	7.6	9.9	18.2	6.2
XV	Base metals and products thereof	8.3	9.4	9.7	10.7	11.1
XVI	Machinery, appliances and accessories	11.2	11.3	11.2	11.3	10.3
XVII	Vehicles and other means of transport	9.8	12.0	13.5	12.0	13.3
XVIII	Instruments	8.2	7.8	7.2	7.4	7.1
XIX	Armaments, ammunition and spares	23.0	24.8	24.2	24.4	24.6
XX	Other products	15.3	15.7	15.0	15.4	14.9
XXI	Works of art	0.6	2.9	3.8	-	-
XXII	All headings	6.3	7.4	7.8	7.3	6.8

Source: Federal Secretariat for Finance

Other Import Charges
(per cent)

Year	Rate
1985	11.0
1986	11.0
1987	15.3
1988	21.0
1989	21.0
1990	16.0

Source: Federal Secretariat for Finance

Average realized tariff protection
(Per cent)

Year	Rate
1985	6.3
1986	7.4
1987	7.8
1988	6.7
1989	6.8
1990	7.1

Source: Federal Secretariat for Finance

Regional distribution of foreign trade

78. In Yugoslavia's foreign trade the developed Western countries continue to be its major foreign trade partners.

Share in per cent

Item	1988	1989	1990
SFRY's trade (exports plus imports)	100.0	100.0	100.0
Of which:			
- developed countries	53.9	55.3	62.0
- developing countries	15.1	13.5	12.0
- Eastern trading area	31.0	31.2	26.0

Source: Federal Secretariat for Foreign Economic Relations

79. The increased share of the developed western countries in total trade in the 1988-1990 period is attributable to the increased share of those countries both in Yugoslavia's exports and its imports.

**Share of the developed Western countries
(per cent)**

	1988	1989	1990
- In total export of goods	51.5	53.7	59.8
- In total import of goods	56.1	56.3	63.6

Source: Federal Secretariat for Foreign Economic Relations

80. The high share of these countries in overall trade has been the main cause of the growing trade deficit as imports from these countries have risen far more dynamically than exports thereto.

81. In 1990 Yugoslavia registered a very dynamic growth of trade with the developed countries in the amount of 32 per cent relative to the 1989 level. Exports increased 19.6 per cent while, as a result of far reaching import liberalization, imports rose by 42.9 per cent i.e. at a much higher rate than in 1989.

82. In its trade with the developed countries Yugoslavia has remained committed to its long-standing partners in Europe, i.e. primarily to the EC member-states, as well as the EFTA countries.

83. The EC accounted for over 50 per cent of Yugoslavia's exports and imports in value terms taking 59.8 per cent of the former and delivering 63.6 per cent of the latter. In exports, the highest growth rates were registered with France (50.9 per cent), FR Germany (37.4 per cent), Italy (18.3 per cent), Belgium (17.2 per cent), Austria (25.5 per cent) and Denmark (56.7 per cent). On the import side, particularly high growth rates were reported with France (51.1 per cent), Greece (91.6 per cent), Italy (56.7 per cent), FR Germany (32.5 per cent), Austria (63.2 per cent) and Switzerland (44.4 per cent).

84. The high import growth rates have aggravated the deficit in trade whose index in 1990 was 276.7 per cent up on its 1989 level, causing an automatic drop in the rate of import-export coverage from 85.2 per cent to 71.3 per cent.

85. The heaviest trade deficit was reported in trade with FR Germany, Austria, Japan, Switzerland and the USA.

86. The structure of trade and particularly that of exports has been diversified in favour of an increased share of manufactured products. However, Yugoslav exports still encounter numerous trade barriers obstructing their enhanced access to the markets of their major economic partners.

87. The above barrier trends have been particularly pronounced in the traditionally export-oriented sectors (iron and steel industry, agriculture, textiles and clothing industry) which have been subject to antidumping measures, demands to establish so-called voluntary export restraints on particular products, seasonal quotas and seasonal tariff rates, procedures linked to certificates of origin, attestations, standards and technical regulation.

88. In 1990 trade in goods with the Eastern trading area recorded a 1.7 per cent decline i.e. a 8.6 per cent drop in exports and a 5.4 per cent rise in imports relative to its respective 1989 levels.

89. Over the same period, the share of these countries in Yugoslavia's total imports and exports fell from 33.3 per cent to 28.5 per cent and from 29.3 per cent to 24.2 per cent respectively.

90. These trends have resulted in a trade deficit and a lower coverage of imports by exports which went down from 102.9 per cent to 89.2 per cent.

91. The trade with developing countries in the past period evolved under extremely harsh economic conditions and as a result have failed to yield any noteworthy results.

92. In 1990 trade volume was 4.1 per cent up on the 1989 level with a 4.2 per cent drop in exports and an 11.2 per cent rise in imports.

Foreign exchange system

93. Towards the end of 1990 the Law on Foreign Currency Transactions was amended to provide for greater assurance in respect to foreign exchange operations, export incentives and a faster collection of payments for exports; regular payments of external liabilities by all entities involved in foreign transactions; consolidation of dinar stability; protection of foreign entities in respect to transfer of claims on the basis of business dealings in Yugoslavia and the like. The main features of the Yugoslav foreign exchange system now in force are :

- The balance of payments is unified and covers financial and other economic transactions between domestic and foreign entities including the value and collection of payments for export of goods and services and for other invisible inflow items; the value and payments for import of goods and services and for other invisible outflow items; external financial transactions; relevant current account balances and financial transactions as well as any changes in the level of foreign currency reserves.

- The projection of Yugoslavia's balance of payments along with the common annual foreign exchange policy is passed by the SFRY Assembly. The common foreign exchange policy includes the policy on exports of goods and services and on other forms of foreign economic relations, imports policy, protection policy, the dinar exchange rate policy, the foreign exchange reserves policy, and the policy of foreign credit relations.
- Payments made abroad are cleared through duly authorized banks for the performance of foreign exchange operations which are allowed to perform foreign clearing operations, foreign credit operations and foreign currency operations in Yugoslavia.
- Foreign exchange payments are made in foreign currencies and in dinars depending on the international payments agreement entered into with the country concerned.
- In support of the import liberalization of goods and services a liberalization of payments in foreign transactions has likewise been implemented. All payments made abroad on the grounds of current transactions are fully liberalized, including payments in foreign trade, and including services, on the grounds of repayment of credits taken aboard and payments on the grounds of other current business where there is no transfer of capital abroad.
- Foreign persons have the right to free transfer abroad of the resources earned on the basis of their current transactions in Yugoslavia. The transfer of profits is allowed, return of the share capital invested in a socially-owned enterprise; a share in net assets as well as repatriation of this share if foreign persons have invested resources in a mixed enterprise after the cease of such enterprise; claims sold against a foreign exchange share in a mixed enterprise; proceeds from sale of a wholly-owned enterprise by foreign person; and of other claims receivable by a foreign person. The transfer of profits earned by foreign contractors for execution of capital projects in Yugoslavia is also free. Likewise, money can be transferred to the credit of a foreign person abroad as compensation or indemnity for expropriation, nationalization or other actions of an identical impact thereto; as personal earnings and other receipts paid out to a foreign person employed by an enterprise, insurance organization, bank, or any other financial organization in Yugoslavia.
- Foreign currency supervision is carried out by the Federal Foreign Exchange Inspectorate, the National Bank of Yugoslavia and the National Banks of the republics and autonomous provinces. Certain supervision duties are performed by the Social Accountancy Service of Yugoslavia and by the competent customs authority.