GENERAL AGREEMENT ON
TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

REPORT ON THE 1981 CONSULTATION WITH YUGOSLAVIA

1. The Committee consulted with Yugoslavia in accordance with its terms of reference and the Declaration of the CONTRACTING PARTIES on Trade Measures Taken for Balance-of-Payments Purposes (BISD 26S/205). The consultation was held on 16 November 1981 under the Chairmanship of Mr. J.N. Feij (Netherlands). The International Monetary Fund was invited to participate in the consultation pursuant to Article XV of the General Agreement.

2. The Committee had the following documents before it:

Basic Document	(BOP/222)
Secretariat Background Paper	(BOP/W/57)
IMF Recent Economic Developments, dated 19 May 1980	
IMF Supplementary Background Material, dated 20 October 1981.	

Opening Statement by the representative of Yugoslavia

3. In her introductory statement, the representative of Yugoslavia presented a detailed picture of recent developments in the Yugoslav economy and of Yugoslavia's balance-of-payments problems and policies. Among the representative's main points were the following. Until 1979 the Yugoslav economy had grown at a high rate largely due to strong domestic demand, which however had entailed a deterioration of the balance-of-payments. In 1980 efforts were made to restrict domestic demand in order to establish a more tolerable relationship between the level of imports and that of exports. As a result the overall deficit declined from US$ 3.7 billion in 1979 to US$ 2.3 billion in 1980.

4. In 1981 the Yugoslav authorities had continued their stabilization efforts but the rate of inflation had accelerated and in May 1981 had reached 53 per cent on an annual basis. In June 1981 the government had decided to impose until the end of 1981 ceilings on price increases ranging between 5 and 7 per cent. A pursuit of the restrictive fiscal and monetary policies to reduce demand and the price controls were expected to reduce the annual rate of inflation to 39 per cent by the end of this year.

5. In 1982 the stabilization policies were going to be reinforced with the aim of reducing the overall balance-of-payments deficit to US$500 million. A decline of the annual rate of inflation to 15 per cent was expected by the end of 1982, mainly as a result of further efforts to reduce internal demand, in particular in the field of investments. Real output was expected to grow at a rate of 2.5 per cent. This growth rate was the minimum rate necessary to avoid a worsening of the employment problems, including those arising from the reintegration of Yugoslavs that had temporarily worked abroad.

6. The attainment of this growth rate presupposed a substantial expansion of exports and several export promotion measures had therefore been taken: first, the elaboration of specific export expansion programmes by Associated Organizations of Labour and the Chambers of the Economy; second, the adoption of a realistic exchange rate policy designed to maintain the economy's competitive position; third, an improvement of the export promotion system, including the system of tax rebates; fourth, the pooling of the resources of interested parties, including Organizations of Labour and banks, to promote exports of certain goods and services and; fifth, an improvement of the terms of credits allocated to the production of goods and services for export.

Statement by the representative of the International Monetary Fund

7. At the invitation of the Committee, the representative of the International Monetary Fund made a statement, the full text of which is reproduced in Annex I.

Balance-of-payments position and prospects - alternative measures to restore equilibrium

8. In reply to questions on Yugoslavia's present current account deficit, the Yugoslav representative said that the latest estimates showed that the current account deficit was likely to be lower than planned, namely US$ 1.2 - 1.3 billion rather than US$ 1.8 billion. There would probably be a deficit with the convertible currency countries of about US$ 1.6 billion, and a surplus with the other countries of about US$ 300 to 400 million. In response to a question on anti-inflation policies, the Yugoslav representative said that the government attempted to attack the problem of inflation both from the supply and the demand side. On to the supply side, its main aim was to ensure the proper functioning of the unified Yugoslav market. On to the demand side, the government was pursuing policies to restrict both investment in non-priority sectors and consumption, and it was also continuing to impose ceilings on price increases.

9. One member of the Committee asked for information on Yugoslavia's energy policies. In reply, the Yugoslav representative said her country presently produced only one-third of its oil consumption. Her government attempted to diversify the sources of energy, in particular by putting greater emphasis on the production of coal, of which there was an abundant national supply. This, and a decline in oil

consumption, had led to a reduction of imports of crude oil and oil products from 14 million tons in 1980 to 11.8 million tons in 1981. The Social Plan for 1981-85 foresaw an annual increase of 7.1 per cent in the overall consumption of energy. The diversification efforts were reflected in the fact that only an increase of 3.5 per cent in oil consumption was planned while coal consumption was to rise by 12 per cent.

10. Several members asked whether a further liberalization of the import regime could be expected if the balance-of-payments improved as projected. The reply was that the overall level of imports depended on the availability of foreign exchange, which in turn largely depended on export performance.

11. Several questions were asked on the foreign debt situation of Yugoslavia. The Committee was informed that Yugoslavia's total foreign debt had, at the end of 1980, been US$ 16.9 billion, of which US$ 15.4 billion were in convertible currencies. At the end of 1981 the total debt was likely to rise to about US$ 18 billion, of which US$ 16.4 billion were in convertible currencies. The debt service ratio had been 20.5 in 1979, 18.3 in 1980 and was estimated to be 19.9 in 1981.

System, method and effect of the restrictive import measures

12. Several members of the Committee asked detailed questions on the operation of the exchange allocation system applied by Yugoslavia. They noted that the system was relatively complex and difficult to understand and appeared to give rise to discretionary decision-making on trade policy matters at the regional level. In response the representative of Yugoslavia made the statement reproduced in Annex II.

13. One member wondered whether the regional autonomy in the allocation of foreign exchange had entailed a need to erect barriers to the movement of goods between regions. The representative of Yugoslavia replied that there were no administrative trade barriers within Yugoslavia. Import possibilities and needs could however differ from one republic or province to another as a result of regional differences in exchange earnings and in the structure of economic development.

14. One member of the Committee asked whether the Yugoslav authorities planned to reopen the foreign exchange market in 1982. The reply was that the exchange market was functioning only to a limited extent because the Central Bank was unable to satisfy all demands for foreign exchange. A fuller functioning of the exchange market presupposed a successful implementation of the domestic stabilization policies and an improvement of Yugoslavia's balance-of-payments position.

15. One member asked which of the measures described in the Basic Document supplied by Yugoslavia served balance-of-payments purposes. The representative of Yugoslavia replied that the licensing system had been instituted mainly to enable the government to meet international obligations, in particular under commodity agreements. The quota system was to grant temporary protection to national production in conformity with Yugoslavia's development needs, as specifically provided for in Article XVIII:C of the General Agreement. The charges on various agricultural products amounting to the difference between the normal market price and the lowest import price were levied to stabilize the prices of these products. The exchange allocation system was, however, directly related to the overall balance-of-payments position of Yugoslavia and of that of each republic and province.

16. One member of the Committee said that the issuance of letters of credit had been delayed in accordance with unpublished instructions by the Central Bank. This not only reduced imports but resulted in unnecessary costs to traders. Such restraint orders should be made public in order to avoid unnecessary confusion. The member also noted with concern that, according to information he had received, all outstanding import licensing applications had been cancelled as of 30 September 1981 and reapplications had to be made through the Central Bank with prior approval by the authorities in republics and provinces.

17. In response to a request by the Committee the representative of Yugoslavia agreed to notify to the GATT the list of products presently subject to import quotas.

Conclusions

18. The Committee welcomed the abolition of the temporary surcharge on 7 June 1980 in connection 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.

19. 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 role of the foreign exchange market be enhanced.

ANNEX I

Statement by the Representative of the International Monetary Fund

During the second half of the 1970s the Yugoslav economy experienced high rates of growth of real output stimulated by strong expansion of domestic demand. This led to serious pressures on domestic prices and the balance of payments which were aggravated by the sharp increase in oil prices. In 1979, the deterioration of the balance of payments became very serious. Demand management policies were significantly tightened in 1980 and the exchange rate was depreciated substantially in June 1980. These actions contributed to a slowdown in growth of real gross social product (GSP) and a marked reduction in the current account deficit, from US$3.7 billion (6.0 per cent of GSP) in 1979 to US$2.3 billion (3.7 per cent of GSP) in 1980. However, inflation accelerated significantly, with retail prices rising by 39 per cent over the 12 months to December 1980, owing largely to external factors and decontrol of administered prices.

In 1981, the Yugoslav authorities embarked on a renewed stabilization effort in the context of the Social Plan for 1981-85. In support of this effort, the Fund, on January 30, 1981, approved a three-year stand-by arrangement in an amount equivalent to SDR 1,662 million. The Plan strategy is to restrain domestic demand while restructuring the supply side of the economy in order to provide the basis for a sustained improvement in the balance of payments.

Developments so far in 1981 indicate that real output is increasing broadly in line with the targeted rate of 3 per cent. After a slow start, industrial production picked up around the middle of the year.

With the exception of expenditure on inventories, the rates of growth of all the major components of real domestic demand tended to decline during the first half of the year. However, the rate of inflation accelerated to 53 per cent (over the 12 months to May), and in June 1981 the authorities instituted price controls.

In 1981, financial policies have been quite restrained. Expenditure of the Federal budget is expected to decline sharply both in real terms and as a proportion of GSP (from 8.3 per cent in 1980 to 7 per cent in 1981). For the public sector, the overall deficit is expected to be contained to 0.1 per cent of GSP. Restraint on the growth of money and credit is an essential part of the stabilization program; for 1981 the growth of domestic bank credit and the money supply is targeted to be limited to 22 per cent. In addition, the authorities are currently studying the issue of the adequacy of interest rates which have become increasingly negative in real terms in 1980-81.

Developments so far on the current account of the balance of payments indicate that the target of containing the deficit to US$1.8 billion in 1981 is likely to be met. Although the trade deficit was running at a higher rate than planned during the first part of 1981, this was offset by more buoyant service receipts particularly from workers' remittances, tourism, and investment works abroad. Within the trade accounts, there was a shift in exports from the convertible currency area to the nonconvertible currency area partly reflecting the need to reduce imbalances under bilaterral arrangements. The latest official projections indicate

that drawings on medium- and long-term loans will be about the same as in 1980, at the same time as short-term external indebtedness is reduced and there is some build-up in external reserves. Gross international reserves amounted to US$1.5 billion at the end of September 1981, slightly higher than the end-1980 level.

Exchange rate policy was not very active during the first half of 1981 at a time when inflation differentials vis-a-vis trading partners were increasing significantly. With a view to improving export performance, particularly to the convertible currency area, exchange rate policy has been implemented more actively in recent months. By end-September 1981 the trade-weighted effective exchange rate of the dinar had been depreciated by 12 per cent compared with a year earlier.

The last major institutional change in Yugoslavia's restrictive system took place in 1977-78, when a number of new laws introduced the principle of decentralization in the field of exchange and trade policy, which resulted in the Federal authorities being less involved in decisions regarding import quotas and their allocation. The Joint Foreign Exchange Policy, approved annually by the Federal Assembly, is a comprehensive plan incorporating, inter alia, policies on export promotion, imports and balance of payments restrictions, and protection of domestic industry. Commodities are classified in three categories, largely in accordance with the manner in which exchange is made available: liberalized goods (LB); goods subject to individual quotas (quotas established in quantities

(list RK) or in dinars (list DK)); and goods subject to ad hoc licensing (D). In principle, self-management agreements between producing, consuming, or importing Organizations of Associated Labor allocate quotas for the particular goods involved. The system of self-management agreements was strengthened throughout 1979 and 1980, with imports being related more closely to export performance of the self-management communities of interest. Correspondingly, with the process of decentralization the Federal Secretariat for Foreign Trade is intended to play a diminished role in the administration of the restrictive system.

In April 1981, as a step toward the objective of opening up trade with foreign countries as specified in the 1981-85 Social Plan, a significant liberalization of restrictions on imports was effected. Over 1,000 items were shifted from the restricted lists to the LB list, while 19 items were transferred from the LB list to the restricted lists. As a result of these changes, in terms of the number of items, the share of liberalized items in the total rose from 60 per cent to 78 per cent. In value terms, the share of items in the LB list is estimated to have risen by about 15 percentage points to some 55 per cent of total imports. On the export side, 41 items were shifted from D to LB and 26 items were shifted from LB to D.

In 1981, Yugoslavia's balance of payments situation is expected to improve sufficiently to permit some necessary rebuilding of its official foreign exchange reserves. Yugoslavia's medium-term plan places emphasis on increasing foreign trade, and the process of economic decentralization has been extended to the restrictive system. In addition, more recently the exchange licensing system has been liberalized. The Fund welcomes the trend toward relaxation of restrictions and hopes that, with the pursuit of appropriate domestic and external financial policies, the Yugoslav authorities will be in a position to extend and deepen the liberalization process.

ANNEX II

Statement by the representative of Yugoslavia on the Yugoslav exchange allocation system

The Law on Foreign Exchange Operations and Foreign Credit Relations constitutes the accountability of the republics and autonomous provinces relevant to the implementation of the agreed policy of economic relations with foreign countries. The republics and autonomous provinces together with the State, each within the framework of its rights and competences, are responsible for the position of Yugoslavia in international economic relations and for the balance of payments and foreign exchange balance status of Yugoslavia. This is why the Law has introduced projections of the balance of payments and foreign exchange balance positions of the republics and autonomous provinces in the joint balance of payments and foreign exchange balance of Yugoslavia[1]. These positions represent the plans for economic and financial transactions with foreign countries regarding all sources, bases and intentions which the republics and autonomous provinces have agreed upon in the joint balance of payments and foreign exchange balance of Yugoslavia. In this way, obligations are determined for the realizations of planned exportation of goods and services and foreign exchange receipts from other transactions with foreign countries in the area of every republic and autonomous province. This determines the volume of imports and foreign exchange outlays on all bases which can be realized by organizations of associated labour and other self-management organizations from every republic and autonomous province in a given period of time, as well as the manner in which to realize the determined and agreed volume of financial transactions with foreign countries. The republics and autonomous provinces are engaged in the realization of the projections regarding their balance of payments and foreign exchange balance position. They work in the sector of development policy, the policy of taxes and contributions and price policy, and they should thus influence the improvement of the balance of payments and foreign exchange balance position of the given republic or autonomous province.

The Law determines the obligation of a given republic or autonomous province to take appropriate measures in the event of a deviation from the implementation of the projection for the balance of payments position with the aim of establishing relations determined in these projections. Thus, all republics and autonomous provinces have taken and are taking certain measures to reduce the number of disruptions that have been created to proportions permitted by their balance of payments position, and which are therefore allowed for by the balance of payments of Yugoslavia, in order that the balance of payments deficit may be reduced to the planned proportions.

[1] Articles 28-35 of the Law on Foreign Exchange Operations and Foreign Credit Relations.

The self-managing communities of interest for foreign economic relations[1] represent a new form of self-management organization in the area of foreign economic relations and are created in every republic and autonomous province. The organizations of associated labour and other self-management organizations and communities which realize and use foreign exchange in their business transactions must pool themselves into these self-managing communities of interest for foreign economic relations.

The members of this community of interest regulate mutual relations and mutually harmonize their interests in the planning of foreign economic relations and realize their rights and obligations in foreign exchange transactions that have been accorded to them by the Law.

All the foreign exchange acquired by the organizations of associated labour serve to satisfy the immediate needs of the organizations that have acquired them, and serve to satisfy the needs of those organizations which do not acquire foreign exchange in sufficient quantities or do not acquire them at all, and for the satisfying of general and social needs.

The acquired foreign exchange is distributed among those who have participated in their acquisition in the following manner:

- foreign exchange acquired by organizations of associated labour through independent business transactions belong to the same organization;
- foreign exchange acquired through the pooling of labour and resources belong to those organizations of associated labour which have taken part in their acquisition by way of joint production, financial or other economic cooperation based on the self-management agreement on the pooling of labour and resources;
- foreign exchange acquired by organizations of associated labour through the export of goods and services in whose production have participated, in various forms of lasting cooperation, other organizations of associated labour also belong to the organizations which have taken part in the production of the goods and services, the sale of which led to the acquisition of foreign exchange. The self-management agreement concluded between these organizations of associated labour regulates the question of sharing the thus acquired foreign exchange.

Through a self-management agreement concluded within the framework of the self-management community of interest for foreign economic relations on the basis of the fixed volume of imports as set

[1] Law on Foreign Exchange Operations and Foreign Credit Relations, published in the "Official Gazette of the SFRY", No.15/77. Articles of the Law related to this subject are Articles 37-44 and Articles 66-69.

up in the projection for the balance of payments position of a given republic or autonomous province, the organizations of associated labour and other self-management organizations determine the manner in which to obtain the right to purchase foreign exchange on the foreign exchange market for those organizations of associated labour which do not acquire foreign exchange or acquire them in insufficient quantities and need them for effecting payments abroad and they also determine the restrictions for the management of the acquired foreign exchange.