

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## ACCESSION OF YUGOSLAVIA

### Main Features of the Yugoslav Economy and Foreign Trade System

#### Memorandum Submitted by the Yugoslav Government

#### A. Recent developments in the Yugoslav economy

1. During the whole post-war period Yugoslavia has been pursuing a policy of accelerated economic development, which continued in the 1962-64 period. The basic aim of this policy is to develop the economy as a whole and, within this framework, to raise the standard of living, real personal income and diversification of economy, as well as to increase commodity exchange and develop other forms of economic relations with foreign countries.

2. The development of Yugoslav economy in the 1962-64 period is characterized by a further increase in production, in continuation of the long-term development trend, which started in 1951 and accelerated during the period 1953-61. The GATT document L/1877 of 24 October 1962 deals with this matter in more detail.

3. The economy in the 1962-64 period was characterized by the following developments:

(a) In 1961 and 1962, a moderate rate of 7 per cent of increase was recorded in industrial production, which was below the actual possibilities of the economy. It is for this reason that measures were taken early in 1963, particularly in the field of investment and personal consumption, with a view to raising the level of economic activity. The measures taken consisted in the expansion of resources for investment credit and the liberalization of conditions for the granting of consumer credit. In 1963 and 1964 the volume of industrial production increased by over 16 per cent. In the agricultural sector the increase was 10 per cent in 1963 and 4 per cent in 1964.

(b) This high rate of growth of the past two years could not be without consequences on the stability of the economy. Such influence was noticeable in considerably expanded and intensified investment activities which began to exert an even greater pressure on domestic prices. In 1964 investments increased by about 30 per cent. The increased economic activities in turn, caused a higher level of employment and an increase in personal earnings

(by about 25 per cent), which also made for increased demand in the year. To a certain extent this was also due to natural disasters (earthquakes in Skopje and Slavonski Brod, floods in major wheat-growing regions of the country) which followed one another in 1963 and 1964. Considerable funds had to be engaged to alleviate the effects of these events.

(c) As a result of these developments, total consumption late in 1963 and early in 1964 exceeded total supply. Signs became more and more noticeable of an instability in the economy, such as an increase in prices, a decrease in stocks and an increased deficit in the balance of payments. Such high boom conditions in the domestic economy brought about, late in 1963 and 1964, an increase in imports greater than in exports, both absolutely and relatively. Thus, imports in 1963 increased by 19 per cent as against an increase of exports of 14 per cent, while the respective figures for 1964 were 25 per cent and 13 per cent.

4. In order to create more harmonious relations between supply and demand, various measures were taken in the second half of 1964 to eliminate the discrepancy, including the restriction of investment, budgetary and consumer expenditure and the introduction of a closer control over banking credit.

5. In view of these developments, the Social Plan of Yugoslavia for 1965 sets out a number of principal objectives for the present year: to ensure economic stability, to improve relations in the balance of payments and to improve the economic system.

6. As regards the stabilization of economy, the Plan provides for the further consistent implementation of measures taken in the second half of 1964, with a view to deriving further benefits from their stabilizing effects. In this connexion the need is particularly emphasized for further restricting investment expenditure and for restricting credit, which should result in an improvement in the balance of payments.

7. On the other hand, the Social Plan, based on the "Resolution of the Federal Assembly on Guidelines for the Further Development of the Economic System" and on the "Resolution on Guidelines along which to work out Yugoslavia's Social Plan for the period ending in 1970" (both adopted in 1964), stressed the need to implement measures for the further improvement of the economic system, in order to decentralize economic decision-making, to ensure the effects of market criteria on economic activities and to enable Yugoslavia to participate more fully in the international division of labour.

8. These measures, introduced as part of the economic reform of July 1965, had been considered and prepared over a long period of time. As a matter of fact, the credit and monetary measures taken in 1964 for the harmonization of supply and demand, and those taken in March 1965 regarding the temporary freezing of prices of industrial products, are an integral part of the whole economic reform programme.

9. The period of time so far elapsed is insufficient to provide material for a general review of the effect of the economic reform and of those measures taken before 26 July within the reform.

10. However, during January-August 1965 the economy showed the following signs:

- (a) industrial production increased by 9 per cent;
- (b) investment demand has assumed a markedly slowed-down trend; this was particularly marked early in the year. Total investment expenditure on fixed assets shows an increase of only 5 per cent over that of the corresponding period last year;
- (c) measures aimed at the stabilization of the market have had a positive impact on the trade balance. Thus, exports in the first eight months of 1965 increased by 17 per cent while imports dropped by 5 per cent from the level in the corresponding period last year.

B. Basic principles of the economic reform

11. The economic reform introduced considerable changes in the economic system and relations in the economy. Basically, the measures form a long-term programme of economic stabilization and development which will link the Yugoslav economy more closely to the international economy and the international division of labour.

12. Work on the preparation and launching of the measures within the reform was based on the basic principles of the 1963 Constitution, and on the subsequent Resolutions of the Federal Assembly mentioned above. Essentially, the economic reform aims at

- (a) the establishment of better relations between the prices of agricultural and other primary products and services and those of industrial products,
- (b) a stronger reliance on market criteria in the formation of prices and in the allocation of investment resources, and
- (c) the decentralization of economic decision-making.

13. These measures were intended to remove the previous distortions in prices and to strengthen the material basis for the development of production in the basic sectors of industry and agriculture which formerly lagged behind the average growth of the economy. The new price relations correspond better to those in foreign trade exchange. Also, the basic sectors of the economy and the service sectors are now in a better position directly to form their own funds for expansion. Enterprises are responsible for their own economic situation, and in their operation are based on price production costs and the productivity of labour. This eliminates the need for resorting to various forms of subsidizing or refunding which was applied on a large scale in the production of basic raw materials, in services (including transport) and in processing industries.

14. With the new price relationships, enterprises are allowed independently to dispose of their income and to decide freely on their investment policy. To strengthen the enterprises' capital resources, various taxes and charges previously levied on them have been either reduced or eliminated, such as:

- (a) the turnover tax, formerly collected at various stages of production, at greatly varying rates, is now collected only on retail trade, and is applied at equal rates on both domestic and foreign products;
- (b) Income tax on enterprises is no longer payable - formerly it amounted to 15 per cent;

(c) Unitary levels of interest rates for fixed and working assets (2 per cent and 4 per cent respectively) have been established. Formerly, the rates ranged between 0 per cent and 6 per cent, which made for inequality between different branches of the economy.

15. Before the reform these taxes and levies caused a considerable part of the national product to be set aside, in the form of various central or local funds to be disposed of by the central and other organs of State. This had not only diminished the part of income left for independent disposal by the enterprises themselves but also rendered the enterprises' position dependent on such organs' decisions. Hence the old system enabled various forms of shifting of resources from the productive economy to various central and local authorities, which decided on their disposal.

16. In addition to letting the market criteria influence the formation of prices, the above changes in the distribution of income give a decisive advantage to the most productive enterprises, to those which are in a position to develop and sell their products on domestic and foreign markets. Thus, enterprises have at their disposal more funds and a greater independence in investment policy. The accumulation of capital is no longer accomplished by fiscal methods but on an economic basis, and is guaranteed by the new principles adopted for the banking and credit system (see Annex II).

17. One major requisite for the implementation of the economic reform is economic stability. This is why measures within the reform rely on a policy of internal stabilization.

18. The above mentioned measures, which are to be strictly implemented, in the field of monetary and credit policy, are aimed at keeping consumption within realistic possibilities. It is for the same reason that measures have been taken to keep increases in personal income at a level commensurate with the increase in labour productivity.

#### C. Measures in foreign trade and foreign exchange system

19. Along with the changes in price relationships and in the system of income distribution and other measures, a single new par value has been fixed for the dinar. The new par value is 1,250 dinars to US\$ 1.-, as against the former par value of 300 dinars to US\$ 1.- and a settlement rate of 750 dinars to US\$ 1.- (practically all payment transactions with foreign countries were made at the latter rate between 1961 and July 1965.)

20. The new rate makes possible the establishment of more adequate relations between domestic and foreign prices. With the entry into force of the new par value and other measures within the economic reform, export premiums, applied from 1961 until 26 July 1965, were abolished. They

amounted, depending on the kind of products, to 10 per cent, 22 per cent, and 32 per cent.

21. The Permanent Customs Tariff is yet another instrument which entered into force on 26 July 1965. The new customs rates are lower than those of the Provisional Customs Tariff, so that the average customs incidence, calculated on the basis of 1964 imports, amounts to 11.7 per cent, as against the former 23.29 per cent. A comparison between the two averages during the same year, worked out by commodity sectors, would appear as follows:

	<u>Old Tariff valid until 26 July 1965</u>	<u>New Tariff valid after 26 July 1965</u>
Raw Materials	12.14 per cent	5.11 per cent
Other reproduction materials	17.19 per cent	9.26 per cent
Capital goods	42.79 per cent	20.39 per cent
Consumer goods	43.96 per cent	21.06 per cent

22. The new customs tariff contains about 4,500 items, while the provisional one contained about 2,400. The Permanent Customs Tariff is a one-column one, and contains customs rates applicable to the import of goods from countries with which agreements containing the most-favoured-nation treatment clause have been made. Customs rates for goods imported from other countries are higher by 50 per cent.

23. The Yugoslav customs system is based on the Brussels Tariff Nomenclature and the Convention on Values.

24. The levels of the customs duties, that is, the levels of protection, reflect an adopted policy of economic development and a desire to increase the exchange of goods and services. Low customs rates have been adopted for raw materials and reproduction material. In doing so, account has been taken of the need for a stronger influence of foreign competition, particularly on the productivity of labour in Yugoslav industries, and the desirability of a better supply of imported goods on the Yugoslav market; with greater variety at more favourable prices.

25. The Yugoslav Government is mindful of the recommendations of the Ministerial Conference of May 1963 on the need to promote trade between developing countries and of the provisions of Part IV of the General Agreement. Consequently, the new customs tariff provides for duty-free imports of tropical products, and the Customs Tariff Act authorizes the Government to adopt lower customs rates - consistent with its international obligations -

for imports from the developing countries.

26. The obligation to pay customs duty begins at the moment of importation (crossing the customs line), and exists only for goods destined for use in the country; goods in transit and temporarily imported goods are not subject to customs duties.

27. Yugoslavia is a full member of the Customs Co-operation Council and a signatory to numerous international agreements and conventions facilitating speedy movement in the international traffic of goods. In accordance with such conventions, Yugoslavia's customs system contains provisions regarding:

- (a) temporary imports of goods to be exhibited at fairs, exhibitions, etc.;
- (b) temporary stocking of foreign goods in consignment warehouses owned by foreign firms;
- (c) temporary imports of packing material;
- (d) temporary imports of vehicles in circulation;
- (e) temporary imports of tourists' personal effects during their stay in the country; and
- (f) customs-free areas.

28. Notwithstanding her balance-of-payments difficulties, Yugoslavia has been endeavouring to simplify her foreign trade regime to the largest possible extent, and particularly, to eliminate various import restrictions maintained for balance-of-payments reasons. The existing restrictive list is at present under review. There has been, however, a considerable reduction of such restrictions since Yugoslavia's provisional accession to the General Agreement on 13 November 1962, viz:

- (a) the prohibition on imports of motor-cars by citizens has been lifted;
- (b) twenty-four groups of products have been taken off the list of imports subject to restrictive licensing. Early in 1963 this list contained 43 groups of products. It formerly covered nearly all the equipment imported into Yugoslavia; the reduction left on it only one item of equipment: motor vehicles imported by enterprises. At the same time, the procedure of inviting tenders or arranging public competitions was established for imports exceeding 30 million dinars in value. This enables domestic and foreign suppliers of equipment to participate on equal terms;
- (c) the list of imports subject to quotas, which early in 1963

contained 53 products or groups of products, has been reduced to cover 23 products or groups of products;

(d) the list of exports subject to licensing, which early in 1963 contained 68 products has been reduced to cover 43 products;

(e) twenty-five products or groups of products have been taken off the list of exports subject to quotas, leaving only two products on it.

29. As a matter of general policy, Yugoslavia has introduced a system of multilateral payments which it applies to most member countries of the GATT and IMF. Yugoslavia will continue to endeavour to multilateralize its payments relations and to discontinue bilateral agreements with all countries willing to do so.

30. Yugoslavia's foreign trade and foreign exchange system, including its regime of foreign exchange restrictions, are dealt with in greater detail in a document prepared in connexion with the current consultations on the Yugoslav balance-of-payments restrictions. As stated there, imports into Yugoslavia of a large number of raw materials and other materials for production are free from restriction. At present, and until the economic reform can be fully implemented, the import of raw materials and other materials for production not on the free list is being effected within global quotas which are at the disposal of banks and enterprises. If exports assume a more favourable trend, banks may apply to the National Bank for additional funds to pay for additional imports. In selling foreign exchange, banks accord a certain preference to producers of export goods. Similarly, the import of equipment during the transitional period may be done within the global quota, but the import of work-protecting equipment is entirely free. There exist special facilities for imports of equipment intended to increase exports. The import of a number of industrial consumer goods is free (the same applies to coffee), while the import of other consumer goods is covered by quotas, the extent of which depends on the balance-of-payments possibilities.

October 1965.

Enclosed: Annex I: The Nature and Status of Yugoslav Enterprises

Annex II: Yugoslavia's Banking and Credit Systems.



ANNEX I

THE NATURE AND STATUS OF YUGOSLAV ENTERPRISES

Conditions for Engaging in Foreign Trade

1. The status of Yugoslav enterprises is the subject of documents L/1494/Add.2, submitted to the CONTRACTING PARTIES in 1961, and L/1877, submitted in 1962. The present document, deals with certain changes since 1962; it is based on the Basic Law on Enterprises adopted in April this year.

Basic business and management principles

2.

(a) Under the Yugoslav system, an enterprise is an independent organization engaged in a certain economic activity. It plans its production programme, purchases and sales in an independent manner. Its income is realized through sales of its products on the domestic or foreign markets, and its business success depends on the production and other costs and on the prices at which a given product or service can be realized on the market. An enterprise is free to determine the prices of its products, domestically as well as abroad. According to Article 21 of the Basic Law on Enterprises, an enterprise's funds guarantee the fulfilment of its obligations. The Federation or other socio-political communities are not responsible for an enterprise's proprietorial-legal obligations, unless so obliged by the law or contract concluded with it.

Regarding the sales of certain products on the domestic market, a system of ceiling prices had been in force until the freezing of prices of industrial goods - a provisional measure in anticipation of the economic reform. Prices had not been allowed to exceed the fixed maximum level, while enterprises had been free to fix prices on the basis of production costs, taking care not to exceed the maximum level.

(b) In deciding from what source to import or on what market to place their products, enterprises are guided by commercial considerations. The interest in increasing income is expected to direct enterprises to purchase goods at the lowest possible price and to sell their products at a time when best prices can be obtained.

(c) Business funds of Yugoslav enterprises originate either out of their own accumulation or out of credits. Funds granted in the form of credits, under specially prescribed criteria, are subject to repayment with interest.

(d) Enterprises are free to decide independently on the manner in which to dispose of the part of their income remaining after fiscal obligations have been settled, the interest on their own fixed assets and working assets (2 per cent or 4 per cent) and turnover tax have been paid (the latter is collected, as a rule, only in retail trade), and legally decreed minimum sums for Reserve Fund and depreciation have been deducted. That is, they independently decide what part to allot for personal earnings and what part for the Business Fund and the Common Consumption Fund.

3. The most distinct feature of Yugoslavia's economic system is the fact that enterprises are managed by those working in the enterprises. Enterprises are managed by members of the working community both directly and through organs they elect and charge with management functions. These organs are the Workers' Council, the Managing Board and the Director. The mechanism of management is designed to ensure for the workers maximum participation in decision making concerning production, distribution of income and other questions of their economic situation and development, in accordance with legal provisions in force.

#### The establishment and termination of operation of enterprises

4. The Basic Law on Enterprises prescribes rules and conditions for the establishment of enterprises. An enterprise may be established by communes and other socio-political communities, existing economic enterprises, associations of citizens, as well as other self-managing organs and groups of citizens.<sup>1</sup>

During the first stage of establishment, the founders appoint a temporary director of the enterprise. He is responsible for taking all necessary action to bring the enterprise into operation. Organs of the workers' self-management are subsequently elected and the enterprise turned over to the working collective for management. The establishment of the enterprise must be formally recorded in the register of economic organizations at the District Court, the collective becomes responsible for its management as from that date, and the enterprise may begin operation in the field for which it is registered.

5. The participation of the working collective in the management of the enterprise is one of the basic rights guaranteed by the Constitution. The organs of self-management are the Workers' Council, the Managing Board and the Director.

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<sup>1</sup>Funds invested by citizens in the establishment of an enterprise become social property. Citizens may impose the condition that the money invested be repaid with interest.

(a) The Workers' Council (its members elected from the working collective) works out the statutes and other general documents of the enterprise and the operation and development plans and programmes, makes decisions on basic questions of business policy and the handling of the enterprises common funds, draws up the annual balance sheet of the enterprise, makes decisions on status questions where these are not to be decided upon by the working collective as a whole by referendum, makes decisions on other general matters and discharges other business defined by the Law, the statute or other acts. The Workers' Council comprises at least fifteen members.

(b) The Managing Board makes decisions on the operation of the enterprise works out draft statutes and other general acts, production and development plans and programmes, sees to the implementation of such acts and of the resolutions of the Workers' Council to the enterprise's orderly operation, etc. The Managing Board comprises at least five members, elected by the Workers' Council. The Director of the enterprise is ex officio a member of the Managing Board.

(c) The Director manages the operation of the enterprise, carrying out the decisions of the Workers' Council and the Managing Board, these two organs representing the working collective of the enterprise. The Director is appointed by the Workers' Council on the proposal by the Competition Commission on the basis of a public competition.

He represents the enterprise and carries out other business provided for by the Law and by the Statute or some other general act of the enterprise. He does his work independently and is personally responsible for it to the Workers' Council, Managing Board and the working collective. It is also his duty to ensure observance of legal provisions and the fulfilment of the legal obligations of the enterprise; in that respect he is responsible to the public.

He also concludes contracts on behalf of the enterprise. The Statute or some other general act of the enterprise may provide for the approval of the Workers' Council or the Managing Board to be necessary for certain contracts, or for contracts exceeding a fixed value. On concluding such contracts, the director must have a clause included to the effect that such a contract shall become valid upon approval by the appropriate organ of self-management, unless such approval has been obtained beforehand. Should the Director conclude a contract acting beyond his authorization, such a contract would be valid, but disciplinary proceedings may be opened against him, or steps taken to relieve him of his duties and court proceeds opened for the compensation of loss incurred through the conclusion of such a contract. The Director acts as the executive organ of the enterprise he represents. He may enter into agreement with third parties on behalf of the enterprise. Should he commit the enterprise to any form of engagement without prior authorization by the appropriate organ representing the collective of workers, this engagement would remain valid towards third parties, while the Director would be held responsible for any ensuing damage to the enterprise.

The Director may authorize another person to conclude contracts, the contents and scope of which he fixes himself; in larger enterprises, power of procura may be given subject to approval by the Workers' Council.

6. The enterprise ceases operation in the following cases:

- (a) if it has been forbidden by a decree of the competent authority to continue operation for failing to fulfil the conditions required for carrying on economic activities, such conditions being fixed by law or on the basis of law;
- (b) if natural conditions no longer exist for carrying on such economic activity as the enterprise in question is engaged in;
- (c) if real possibilities for further operation no longer exist;
- (d) if the enterprise merges with another, or becomes incorporated in another, or is divided into a number of enterprises;
- (e) if it becomes insolvent.

In the case under (d), the procedure of normal liquidation does not apply. The funds, rights and obligations of the original enterprise are transferred to the enterprise resulting from merger or incorporation or to the enterprises resulting from the division of the original enterprise, on the basis of a balance made for this purpose.

The termination of operation in case of insolvency is regulated in detail by the Law on Forced Settlement and Insolvency adopted in April 1965. As a rule, an enterprise is insolvent if it is no longer in a position to replenish its means of production and other assets, or to fulfil other legally fixed obligations, e.g. if sufficient money cannot by any means be raised from the enterprise's funds to pay its debts, if the enterprise does not pay the charges or taxes levied. The insolvency proceedings are fully within the competence of regular economic courts.

Conditions to be fulfilled by enterprises engaging in foreign trade

7. Enterprises engaging in foreign trade are subject to the provisions of the Law on Exchange of Goods and Services with Foreign Countries. Transactions considered to be connected with foreign trade are those relating to the import and export of goods, the representation of foreign firms, international transport of goods and passengers (by rail, inland waterway, sea and air), international consignment and forwarding, international trade intermediary, contracted control of quality and quantity of goods, the execution of investment work abroad, tourist arrangements and business carried on by foreign trade promotion enterprises.

8. In accordance with the above Law all enterprises entered in the Register of Economic Organizations at the District Economic Court as foreign trade enterprises may engage in transactions connected with such trade.

An enterprise must fulfil certain general conditions in order to be entered as a foreign trade enterprise in the Register of Economic Organizations of the District Economic Court:

- (a) to carry on orderly business;
- (b) to dispose of the required minimum of funds;
- (c) to possess the necessary technical equipment;
- (d) to dispose of personnel possessing the necessary skill in foreign trade;
- (e) to comply with specific conditions prescribed by the said Law. Thus, for instance, production enterprises must have a certain minimum volume of production intended for export.

9. Enterprises wishing to be registered for certain specific foreign trade transactions must obtain the prior approval of the Federal Secretariat for Foreign Trade. Production enterprises may obtain such approval from the competent administrative authority of the respective Republic. Such approval is usually granted when an enterprise fulfils general conditions for conducting an orderly and sound business; in such cases account is taken of the volume and structure of foreign trade exchange.

The competent administrative authority may prohibit an enterprise from engaging in foreign trade in cases explicitly provided for by the Law, such as repeated infringement of foreign trade regulations proved by court.

10. Foreign firms cannot have enterprises of their own in Yugoslavia.

However, they are free to conclude business contracts with any Yugoslav enterprise they choose, either directly or through their representatives in Yugoslavia or abroad. Similarly, they may directly participate in competitions and submit tenders. They have full access to competent Yugoslav tribunals in order to ensure their rights. From time to time they may

send their representatives to Yugoslavia and may participate in Yugoslav trade fairs, advertise in Yugoslav newspapers, etc. Therefore, the fact that foreign enterprises are not allowed to have resident representatives in Yugoslavia does not prevent them from having free access to the Yugoslav market.

11. Foreign firms may be represented by Yugoslav enterprises. The Law on Exchange of Commodities and Services with Foreign Countries makes provision for the following types of representation:

(a) dealing in the name and for the account of a foreign firm in matters preliminary to the conclusion of a contract for the sale or purchase of goods or of a contract for services; establishment of contact between a foreign firm and a Yugoslav enterprise, as well as matters relating to the execution of such contract. (agencies)

(b) conclusion of contracts for the purchase or sale of goods or services in the name and for the account of a foreign firm. (trade representation)

(c) keeping consignments of goods, services for the maintenance of imported equipment and durable consumer goods, as well as rendering technical and other services. (trade and technical representation)

ANNEX II

YUGOSLAVIA'S BANKING AND CREDIT SYSTEMS

1. The Law on the National Bank of Yugoslavia and the Law on Banks and Credit Operations, passed in 1965, introduced considerable changes in Yugoslavia's banking and credit systems.

Under the new system, banks are conceived as organizations established by interested producing enterprises and other economic enterprises as well as by social-political communities, which provide the necessary resources in the form of investments in bank credit funds. The necessary concentration of funds will no longer be accomplished by fiscal methods, as was formerly the case, but primarily through free business relations between enterprises and banks. In this context, the operational area of all banks has been extended to cover the whole territory of Yugoslavia; this means that they are no longer limited to administrative-territorial regions, which formerly limited the operations of communal and republican economic banks.

2. The Law on the National Bank of Yugoslavia establishes in a more precise manner the rights and obligations of that bank. The National Bank should - as a bank of issue, and performing its task of issue and credit functions as well as certain functions regarding international payments - ensure the implementation of monetary and credit policies according to the requirements of internal stability and liquidity in international payments.

The Law on the National Bank entrusts the Bank to implement a uniform monetary, credit and foreign exchange system. In discharging its duties, the National Bank is guided by laws, resolutions and decisions adopted by the Federal Assembly, as well as by regulations issued by the Federal Executive Council. In performing its tasks the National Bank is responsible both to the Federal Assembly and to the Federal Executive Council. Its obligations are guaranteed by the State.

With a view to ensuring liquidity in international payments, the National Bank exerts its influence on the contracting of loans abroad by controlling the credit relations of business banks with foreign countries, by regulating payments with foreign countries, by creating and managing foreign exchange reserves and by taking other measures within its authorization in the field of the foreign exchange system and foreign exchange policy.

3. The new Law on Banks and Credit Operations introduces a number of new features. Thus, the Law regulates in a precise manner the rôle of the banks and confirms their independence in decisions of the management of banking operations. It is of particular significance that enterprises have been granted the right and the possibility to participate not only in the establishment of banks but also in major decisions concerning the business policy of banks and in the distribution of their income. Thus, banks are given a considerably more significant rôle within the whole of Yugoslavia's economic system than they had before the adoption of the Law. All their activities are now based on economic principles.

According to the new Law credit and other banking operations are carried on by the National Bank of Yugoslavia and also by business banks. The latter category covers investment banks, commercial banks and savings banks.

Investment banks grant investment credits for fixed assets and working capital. However, the possibility is not precluded of their granting short-term credits and carrying on other banking activities.

Commercial banks grant short-term credits the purpose of which is to supply economic enterprises with funds for production and trade. These banks may, under special conditions, grant investment credits as well. They also perform other credit and banking activities.

Savings banks are primarily charged with collecting savings deposits, granting credits and carrying on other banking business with citizens.

Workers' and other organizations, as well as social-political communities, have been given the right to establish banks, providing certain conditions are complied with to show evidence of a real basis for such establishment. The minimum conditions for establishing business banks are fixed by the Federal Assembly. Under the Resolution on Minimum Conditions for Establishing Business Banks ("Official Gazette SFRY" No. 12/65), the following should be complied with:

- there should be at least twenty-five founders;
- if an investment bank is being established, a minimum amount of 15,000 million dinars should be ensured for its credit fund;
- if a commercial bank, designed to grant investment credits as well, is being established a minimum amount of 5,000 million dinars should be ensured for its credit fund, and a minimum of 2,000 million dinars of sight deposits;
- if a savings bank is being established, a minimum amount of 100 million dinars should be ensured for its credit fund.

The economic link between the interests of a bank and of its founders-investors is realized through the management of the bank and in participation in the distribution of the bank's income. The number of votes in the Bank Assembly is in direct proportion to the amount of resources invested in the credit fund. Possible monopoly by certain larger working or other organizations or social-political communities is prevented by a provision limiting the maximum number of votes per individual organization to 10 per cent of all votes. In case several social-political organizations should participate in the management of a given bank, the total of their votes in the Bank Assembly may not exceed 20 per cent of the total number of votes.



The management organs of a bank are: the Bank Assembly, the Executive Board and the Manager. The Manager and his deputy are appointed by the Bank Assembly on the basis of a public competition. The manager manages the bank independently, in accordance with the resolution, decisions and directives adopted by the Assembly and the Executive Board, and in accordance with the bye-laws of the bank.

The self-management organ in banks is the working community council, elected by the entire personnel. The functions of the council are clearly defined by the Law.

Fulfilment of a bank's obligations is guaranteed by such funds as the bank manages.

4. Under the new Law on Banks and Credit Operations, credit operations are classified according to the source of assets out of which credits are granted. Thus credits may be:

(a) Investment credits, which are generally granted out of the distribution of the social product, are of a long-term nature. As a rule, such credits do not affect the money supply, rather they shift the already-created resources distributed out of the social product.

Investment credits may be granted either on the basis of competition or following a direct agreement. Banks are to choose, when granting credits, the best beneficiary.

(b) Short-term credits are granted on the basis of sight deposits or on the basis of a credit granted by the National Bank or other banks; such credits affect the money supply.

The main field for short-term credit is to finance production and trade, but not consumer demand. Such credits are designed to cover the need for cash necessary to bridge the gap between the creation of values during the process of production and the proceeds realized in the marketing of the goods produced. Short-term credits create money (or restrict it through repayments) but do not cover needs for capital.

The National Bank of Yugoslavia prescribes and formulates in advance the conditions under which such credits may be granted. These conditions ensure the implementation of credit policy measures in a uniform manner throughout Yugoslavia.

(c) Consumer credits are granted to citizens, with a view to encouraging consumption and regulating the volume of stocks of certain products. These credits are granted out of funds created through the distribution of income; they may also be granted out of other sources.

Consumer credits may be granted by banks out of funds originating from savings deposits and out of funds intended for investment credits. The general conditions for the granting of consumer credits are fixed by the Federal Executive Council, while certain rights and powers within such general conditions are transferred to the National Bank.