

GENERAL AGREEMENT ON

RESTRICTED

BOP/W/120
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TARIFFS AND TRADE

Limited Distribution

Committee on Balance-of-Payments Restrictions

1988 CONSULTATION WITH YUGOSLAVIA (Simplified Procedures)

Background paper by the Secretariat

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

I. Previous consultations with Yugoslavia

2. Yugoslavia has consulted regularly in the Committee since 1965. The last full consultation to be held was in 1981 (BOP/R/122). At that consultation, 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. The Committee encouraged the Yugoslav government to pursue stabilization and exchange rate policies which would gradually obviate the need for measures which restrict trade. The Committee recommended that the foreign exchange system be simplified, rationalized and made more transparent, and that, to the extent possible, the rôle of the foreign exchange market be enhanced.

3. Since that full consultation, two simplified consultations have been held with Yugoslavia: in 1984 and 1986 (BOP/R/143, BOP/R/163).

II. Subsequent notifications by Yugoslavia

4. Yugoslavia has regularly notified to GATT the changes made in its import régime. Following notification of the legal basis for trade and exchange controls as of 1 January 1986 (L/6049) liberalizations affecting ninety-seven products were notified in May 1987 (L/6049/Add.1). In addition, in March 1988 a revised notification on measures and policies affecting trade in agriculture was issued (AG/FOR/REV/YUG/1); revised information on Yugoslavia's import licensing régime was submitted under the GATT import licensing questionnaire in April 1988 (L/5640/Add.20/Rev.2); information concerning changes in the special

charge on imports of certain foodstuffs and agricultural products was circulated in June 1988 (L/6079/Add.1) and further notifications concerning the import régime in force as of 28 May 1988 and products liberalized in 1988, were circulated in July and August 1988 (L/6372 and L/6385)

III. Evolution of trade and exchange policies

5. In L/6049 of 7 October 1986 and L/6372 of 18 July 1988, Yugoslavia notified the legal basis of its import and foreign exchange policies. Imports as such are regulated under the Law on Trade in Goods and Services with foreign countries: import payments are regulated by the Law on Foreign Exchange Operations. The two systems operate jointly to link the allocation of foreign exchange to the authorization of imports.

6. The import system classifies goods in four categories: imports under quota by quantity or value (QK, QV); imports under licence (D) conditionally liberalized imports (LBO); and liberalized (free) imports (LB). For import categories other than "free" imports, a total quota of foreign exchange (rights to payment) is established annually by the Federal Assembly. Import rights for individual items on the quota lists are allocated among enterprises by the Chamber of the Economy and other relevant associations. In 1987 the quota lists consisted of raw materials such as steel and non-ferrous metals, as well as certain types of domestically produced capital equipment. In 1988, (L/6372) ninety-seven tariff lines, covering certain petroleum products, polystyrene, hides and skins, and motor vehicles and tyres, were removed from the quota régime to free import status. Import licensing (D) is used to control transactions in products whose trade is regulated under certain international conventions or agreements (e.g. coffee on the one hand, narcotics on the other) and in gold, coin, armaments and military equipment. The list of goods to which import licensing is applied is annexed to L/5640/Add.20/Rev.2. The total value of foreign exchange entitlements for conditionally liberalized imports (LBO) is established annually for each enterprise, based on its imports and payments for invisible transactions in the previous year, and adjusted quarterly in relation to its export performance. Within this limit, each enterprise may import any goods on the LBO list freely. In 1988, a large number of tariff lines, principally concerning imports of fish, fish oils, bamboo and rattan, oilcakes minerals, fuels, chemical products, fertilizers, insecticides, dyes and paints, essential oils, perfumes, shampoos, toothpastes etc, glues, enzymes, plastics, rubber tyres and tubes, rough wood, paper, stone and ceramic products, tools, various types of machinery, and optical products were freed from "conditional" to fully liberalized import categories. "Liberalized" and "conditionally liberalized" items now account for some 40 and 34 per cent respectively of total imports, and the Yugoslav authorities schedule further liberalization of the import system in the next few years, with the process to be completed by 1991 (see Yugoslav statement (BOP/285), "Schedule of import liberalization up to 1991").

7. Effective control of foreign exchange availability, and hence the overall value of imports, is provided by the exchange system. The 1986 Law on Foreign Exchange Operations requires all foreign exchange receipts to be surrendered to an authorized bank. The previous right of enterprises to retain part of their foreign exchange earnings has been abolished. Because of the serious imbalances existing in the Yugoslav foreign exchange situation, emergency provisions of the Foreign Exchange Law were until recently enforced. These required all transactions in foreign exchange to take place in the daily interbank meetings conducted by the National Bank of Yugoslavia, according to an order of priorities laid down by the Federal Executive Council, which allocated first priority to debt servicing, followed by imports of essential goods by net exporters. All payments in higher priority categories were to be settled before any lower priority transactions could be made. Intermediate and capital goods were treated as high priority: consumer goods were low priority. The need to allocate foreign exchange carefully thus currently takes precedence over any positive changes which may be made in the import régime: the liberalization of imports currently underway implies that, in the event of foreign exchange being available for "free" imports, there is a greater variety of possible goods on which to spend it. As of the second half of May 1988, conditions have been created for a more comprehensive functioning of the foreign exchange market which obviate the need for application of payments priorities. The current system is described in the Yugoslav statement (BOP/285) under the heading "Essential characteristics of the trade régime".

IV. Recent economic and trade developments

8. Yugoslavia's gross social product, following 3 per cent growth in 1986, declined slightly in 1987. The only buoyant factor in the economy was external demand. Consumption contracted and fixed investment dropped substantially, by an estimated 4 per cent. After stagnating during the second half of 1986, industrial production declined during 1987, in particular in the capital goods sector. There appears to have been some recovery in early 1988.

9. One of the Yugoslav's economy's major problems remains inflation, with retail prices rising by 158 per cent in 1987. The dinar depreciated by 95 per cent against the dollar and by 135 per cent against the deutsche mark in 1987. Thus far in 1988, inflation appears to have accelerated.

10. Exports, after falling slightly in volume in 1986, stagnated in 1987. Within this total exports to the convertible currency area are estimated to have risen by some 9 per cent in volume. Imports, which rose rapidly in 1985 and 1986, were compressed in 1987 by some 7 per cent in volume, reflecting the impact of higher foreign debt service payments in 1986 and lower net remittance flows in late 1986/early 1987.

11. The valuation of Yugoslavia's trade and other external accounts in US dollars has led to relatively wide swings in value (as against volume) over

the period reviewed, because of the relatively high proportion of trade with Western Europe and the Eastern trading area. In dollar terms, total exports rose by 4 per cent in 1986 and an estimated 6 per cent in 1987. Those to the convertible currency area grew by 12 and 17 per cent in the same years. The overall trade deficit (f.o.b.-c.i.f.) widened by 25 per cent to US\$ 2 billion in 1986 and is estimated to have narrowed to \$1.3 billion, the lowest level for many years, in 1987. The current account surplus grew steadily up to 1986: in 1987 the sharp decline in net receipts from workers' remittances meant that it is likely scarcely to have increased over its 1986 level of \$1.1 billion.

12. Yugoslavia's indebtedness has continued to grow in dollar terms, in part also due to valuation changes. The ratio of exports of goods and services to convertible currency areas represented by debt outstanding has, however, fallen over the period since 1985. Debt service payments rose to over 46 per cent of exports of goods and services in 1986, but were reduced to 42 per cent in 1987. Bunching of repayment obligations on short-term balance-of-payments support and the valuation effect of the United States dollar depreciation, together with high interest rates, accounted for the high level of debt servicing in 1986.

13. The product breakdown of exports has not varied appreciably in recent years. Manufactures have a clearly predominant share. In particular, machinery, chemicals and clothing account for over half of Yugoslavia's exports. Changes in the composition of imports chiefly reflect the reduction in the share of energy products as a result of lower oil prices. In 1987, fuels, chemicals and capital goods accounted for over 60 per cent of total imports, but nevertheless appeared to be growing less quickly than other imports.

14. The EC and Eastern Europe jointly are Yugoslavia's main trading partners. In recent years, the share of total exports going to, and imports coming from, the EC has risen rapidly, from 24 to 34 per cent for exports between 1984 and 1987 and from 29 to 38 per cent for imports. While the USSR remained, in 1987, Yugoslavia's largest single market and second supplier, the overall share of the Eastern trading area has fallen from a peak of 51 per cent of exports in 1985 to 37 per cent in 1987, while its share of imports has also declined over the recent period to 32 per cent in 1987.

YUGOSLAVIA - BALANCE OF PAYMENTS

(Billion \$)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Balance of trade ¹ (fob-cif)	1.78	-1.61	-2.01	(-1.23)
Balance of services and transfers	2.25	2.43	3.11	(2.43)
Balance on current account	0.48	0.82	1.10	1.18

Source: IMF

¹BOP data

YUGOSLAVIA - DIRECTION OF TRADE 1987
(Percentage shares)

		<u>Exports</u>			<u>Imports</u>
1.	USSR	19.4	Germany, Fed. Rep. of		18.3
2.	Italy	13.0	USSR		15.3
3.	Germany, Rep. Fed. of	11.6	Italy		10.3
4.	United States of America	6.4	United States of America		5.7
5.	Czechoslovakia	3.7	France		4.6
6.	France	3.7	Austria		4.5
7.	Austria	3.6	Czechoslovakia		4.3
8.	Poland	3.6	Iraq		3.4
9.	German Dem. Rep.	2.9	Poland		3.2
10.	Iraq	2.8	German Dem. Rep.		2.6
11.	United Kingdom	2.4	Switzerland		2.6
12.	Hungary	2.1	United Kingdom		2.6
13.	Egypt	2.0	Hungary		2.0
14.	Greece	1.5	Netherlands		1.7
15.	Turkey	1.3	Japan		1.4
	Total	<u>80.0</u>			<u>82.5</u>
	<u>Developed countries</u>	50.5			57.3
	<u>Developing countries</u>	14.1			12.7
	<u>ETA</u>	35.4			30.0
	<u>Total</u>	100			100

Sources: UNSO, Comtrade Database; OECD, Monthly Statistics of Foreign Trade.

MAJOR IMPORT ITEMS OF YUGOSLAVIA - 1987
(Percentage shares)

<u>Category</u>	<u>Share in total</u> ¹ (percentages)
1. Non-electrical machinery	16.5
2. Chemicals	16.3
3. Petroleum and products	12.4
4. Electrical machinery	7.3
5. Transport equipment	6.7
6. Food products	5.6
7. Iron and steel	5.3
8. Textiles	3.8
9. Gas	2.8
10. Textiles fibres	2.3

¹79 per cent of the total.

Source: UNSO, Comtrade Database.

MAJOR EXPORT ITEMS OF YUGOSLAVIA - 1987
(Percentage shares)

<u>Category</u>	<u>Share in total</u> ¹ (percentages)
1. Non-electrical machinery	11.6
2. Chemicals	11.3
3. Transport equipment	9.6
4. Clothing and footwear	9.5
5. Electrical machinery	9.3
6. Food products	7.7
7. Iron and steel	5.9
8. Non-ferrous metals	5.9
9. Textiles	3.7
10. Furniture	3.7

¹78 per cent of the total.

Source: UNSO, Comtrade Database.