

RPTB1

TRADE AND INVESTMENT PROMOTION PLANNING SYSTEM

90/91 TRADE AND ECONOMIC OVERVIEW

Mission: BELGRADE

Country: YUGOSLAVIA

Yugoslavia's economic picture remains fairly bleak in 1989. The Markovic government is attempting to cure the economy by means of dramatic systemic restructuring. New legislation affecting virtually all economic areas including reorganization of social enterprises, foreign investment, joint ventures, banking, foreign exchange, labour laws, etc., have been enacted or introduced. The ultimate goal is an economic system based on a market-oriented model, however, achievement of this goal is proving difficult and painful in the short term. Personal incomes have not kept pace with rampant inflation which threatens to break 1000% barrier by year end. Accelerating inflation has affected domestic investment plans as well as private consumption. The export factor, however, continues to stand out as the economy's bright spot; growth in the order of 5% is expected towards OECD markets while overall export growth should increase by 3% in 1989. Strong export performance has filled foreign exchange coffers significantly, allowing more imports (in line with a major liberalization of the import regime) and an enhanced ability to service foreign debt. This was reduced by about \$3 billion in the past year to approximately \$17 billion. The progressive liberalization of imports, aimed at creating a more competitive marketplace and a more productive industrial sector, will be of significant interest to Canadian exporters. In the first half of 1989 total imports from hard currency countries increased by 17%; Yugoslav imports from Canada in this period were up 55%! Since about 80% of investment spending by enterprises is covered by their own resources, Yugoslav firms with strong export performance should be targetted as prospective clients since they have substantial foreign exchange available. Many of these enterprises are "dusting off" modernization and investment plans aimed at enhancing their productivity and output. Opportunities should open up in such sectors as mining, food processing, oil and gas exploration and refining and telecommunications. Two Canadian firms recently signed contracts valued at over \$10 million in the mining and petroleum sectors. Additional opportunities are apparent in the fields of cattle breeding and genetic material, seed potatoes, coking coal, asbestos and wood pulp. Foreign investment, particularly in the form of joint ventures, is taking on increased importance thanks to new legislation allowing foreigners up to 100% ownership of new and existing enterprises. Several Canadian firms have formed joint ventures in the informatics, car rental and engineering sectors. Canadian business visitors can expect to meet interlocutors who are more business-minded as the prospect of a market-oriented economy becomes more of a reality. Requests for countertrade can continue to be expected however, as Yugoslav buyers seek to stretch available hard currency to the greatest extent possible. In summary, Yugoslavia's economy is undergoing a complete transformation which will take considerable time to fully implement. Unfortunately, external creditors and internal detractors are exhibiting limited patience with the slow pace of progress.