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SAVEZNI SEKRETARIJAT ZA
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B E O G R A D

INTERFUND
WASHINGTONDC
MR H.O. RUDING EXECUTIVE DIRCTOR

PLEASE INFORM ALL CONCERNED OF OUR NEW ADDRESS:

SAVEZNI SEKRETARIJAT ZA FINANSIJE
OMLADINSKIH BRIGADA 1 (NUMBER ONE)
11070 NOVI BEOGRAD

OUR NEW TELEX NUMBER IS: 11062 YU SIV

TO YOU AND YOUR ASSOCIATES BEST WISHES AND A HAPPY
NEW YEAR 1981

FROM THE SECRETARIAT
NIKOLA JELIC ACTING DEPARKTMENT CHIEF

Mr. Ruding October 15, 1980

L.A. Whittome

Yugoslavia

I am attaching the notes and the accompanying table which I circulated to the Camdessus group at a meeting during the Annual Meeting.

I also attach for your personal information the speaking notes which I used for my initial introductory statement at this meeting.

Attachments

Yugoslavia--Balance of Payments 1979-81

The attached table gives balance of payments estimates and forecasts for 1979-81. The revised forecast for the current account deficit in 1980 is based on the latest available data. For 1981, the two forecasts are based on very preliminary Yugoslav thinking.

Short-term capital and reserve-related financing

In 1979, in addition to a large increase in net short-term foreign borrowing, official gold and foreign exchange holdings fell by $1.2 billion. $0.3 billion was purchased from the Fund and foreign liabilities of the banking system rose by $0.2 billion. Gross official reserves at the end of the year equalled only four weeks of convertible imports.

Prospects for 1980

The authorities expect that normal import-related credits, less a small amount of export credits extended by Yugoslavia, will cover gross repayments of principal on medium- and long-term debt. If gross financial credits currently being negotiated reach some $1.7 billion, already agreed net purchases from the Fund would maintain gross reserves at the low level to which they had fallen at end-1979.

Prospects for 1981

There are obvious uncertainties but the current deficit could lie in the range $1,800-$2,000 million. On the assumption that normal import-related credits, less export credits extended, cover gross repayments of medium- and long-term debt, financial credits of approximately $2,000 million would be needed to cover the current deficit. Borrowing from the Fund could be used to provide a much needed increase in gross official international reserves.

The external forecasts for 1981 assume a growth rate of less than 4 per cent in real GNP.

10/1/80

Yugoslavia--Balance of Payments

(In millions of U.S. dollars)

	1979	1980 1/	1981 2/	
Exports	6,794	8,350	9,700	9,750
Imports	-14,019	-15,200	-16,700	-16,650
Trade balance	-7,225	-6,850	-7,000	-6,900
Net invisibles	3,564	4,650	5,000	5,100
Current account balance	-3,661	-2,200	-2,000	-1,800
(As a percentage of GSP)	(6.5)	(4.0)	(3.5)	(3.0)
Capital account: medium- and long-term				
Gross repayments	-1,700	-1,750	-1,900	-1,900
Normal suppliers' credits 2/	3,160	1,850	2,000	2,000
Financial credits		1,720	2,000	2,000
Loans extended, net	-100	-100	-100	-100
Balance	1,360	1,720	2,000	2,000
Net short-term capital and net errors and omissions	562	--	--	--
Balance	-1,739	-480	--	+200
Reserves at end of period	1,330	1,330 3/	...	...

1/ Forecast.
2/ Includes World Bank loans.
3/ Estimate.

Yugoslavia--Note for Meeting on Thursday

1. For 1979 no explanations are needed. Figures are as firm as balance of payments figures normally are.

2. For 1980: (a) the most recent figures available make the projection for the current account seem reasonable; (b) on the capital account, the figure of $1.7 billion for financial credits represents the amount which the Yugoslavs believe that they can borrow in 1980; and (c) it should be noted that the outturn for 1980 presented in the table presupposes both that there is no change in the level of short-term debt and that all the Fund borrowing that will occur during 1980 (around $400 million) will be used to ensure no further fall in reserves. At the end of 1980, reserves will, on this assumption, cover less than one month's imports of goods and services in convertible currencies.

3. (a) For 1981, we have presented a narrow range of estimates for the current account. These estimates assume no new major shock to the world economy. The differences between the two assumptions are minor. (b) The figure for financial credits in 1981 is derived in the sense that we have reached it after assuming that there should be no change in short-term borrowing and that any drawings on the Fund should be used to build up reserves.

4. As to the economy, there is no need to change the views expressed in the previous meeting in Paris. The current account outturn for 1980 now seems likely to be somewhat better than was thought possible, primarily because the real economy has been growing more slowly than was then assumed. (Increase of CPI in 1980 will probably exceed 25 per cent.) Finally, I should warn you that there will be a need to make some technical modifications to the stand-by arrangement partly because the Yugoslavs have been less successful than had been hoped some months ago in their external borrowing program.

October 2, 1980

CONFIDENTIAL

MEMORANDUM FOR THE FILES

October 15, 1980

Subject: Meeting of Yugoslavia's Creditors

An informal meeting of the major Yugoslav creditor countries was held under Mr. Camdessus' chairmanship on October 2, 1980. Mr. Whittome began the meeting by distributing the attached balance of payments projections and by outlining recent developments along the lines of the attached note.

The country delegations then gave their understandings of the amounts that would be available in 1980 from banks in their countries. They were as follows:

-Kuwait	US$250 million
-Iraq) -Libya)	US$100 million
-Austria	US$100 million (for 6 years at +11/8 per cent)
-France	US$100-150 million (without any official guarantee)
-Germany	US$200 million
-Italy	US$200 million (for 1980-81)
-Switzerland	US$100 million
-United States) -United Kingdom) -Canada) -Japan)	US$250 million (raised subsequent to the meeting to US$300-400 million, and near the higher end of this range)

Mr. Whittome pointed out that the implication of these estimates was that Yugoslavia's needs would not be met, necessitating either more short-term debt or a decline in reserves. He thought that there was a strong case for doing more, given the improvement that has occurred in the current account of the balance of payments. He emphasized the desirability of Yugoslavia having sufficient funds to permit an increase in gross international reserves and hoped that Fund lending in 1981 would go into reserves.

Mr. Camdessus agreed with this. He said that France would try to go as high as possible in its lending and thought that other countries, particularly Germany and the U.S. group, should do the same. It was agreed that any change in the above estimates would be circulated to all members of the group. On this basis, the United States circulated the above revision.

It was agreed that for the moment, no further meetings needed to be scheduled. If a need developed, a meeting could be arranged, not necessarily in Paris.

GT

Geoffrey Tyler

Attachments

cc: Mr. Whittome

Office Memorandum

October 14, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Ruding telephoned to say that on a very recent visit to New York he had been assured by the banks (especially Citibank who is taking the lead in the matter) that the syndicated loan for Yugoslavia would as a minimum reach $400 million and might reach $500 million. I shall pass on this information to Mr. Camdessus.

Mr. Ruding said that seemingly the only point at issue was one of spread but hopefully this could be satisfactorily worked out between the Yugoslavs and the banks. He added that the banks seemed in no way inclined to make agreement on a new Fund stand-by a condition for the syndicated loan this year. However, it was plain from their conversations that their attitude to further loans during 1981 would be negatively influenced if there were no new stand-by agreement with the Fund.

L.A. Whittome

cc: EED

M. Whittome

2

October 9, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia--World Bank Assistance

In the absence of Mr. Chopra, Mr. Kavalsky of EMENA rang me to discuss making a Bank staff member available for the Yugoslav mission. He said that Mr. Bery would be available for the mission commencing October 29.

With respect to the mission in December, Mr. Kavalsky said that, unfortunately the staffing situation would not permit making a person available for the mission.

I said that the above arrangement would be acceptable to us.

GT

Geoffrey Tyler

cc: Mr. Whittome ✓
Mr. Manison

Mr. Tyler

October 8, 1980

L.A. Whittome

Yugoslavia

One area of importance not discussed in the short brief for your October visit to Belgrade is that of investment program. We agreed that there would be many obstacles to the Bank or we getting satisfactorily to grips with the problems that undoubtedly surround this area. But their obvious relevance to the balance of payments forces us to make all the headway we can in both understanding how the system has worked during the last two years and what effective instruments they can use to produce a better future result.

As we also discussed there are broadly similar problems in the field of wage determination.

Yugoslavia--Note for Meeting on Thursday

1. For 1979 no explanations are needed. Figures are as firm as balance of payments figures normally are.

2. For 1980: (a) the most recent figures available make the projection for the current account seem reasonable; (b) on the capital account, the figure of $1.7 billion for financial credits represents the amount which the Yugoslavs believe that they can borrow in 1980; and (c) it should be noted that the outturn for 1980 presented in the table presupposes both that there is no change in the level of short-term debt and that all the Fund borrowing that will occur during 1980 (around $400 million) will be used to ensure no further fall in reserves. At the end of 1980, reserves will, on this assumption, cover less than one month's imports of goods and services in convertible currencies.

3. (a) For 1981, we have presented a narrow range of estimates for the current account. These estimates assume no new major shock to the world economy. The differences between the two assumptions are minor. (b) The figure for financial credits in 1981 is devised in this sense that we have reached it after assuming that there should be no change in short-term borrowing and that any drawings on the Fund should be used to build up reserves.

4. As to the economy, there is no need to change the views expressed in the previous meeting in Paris. The current account outturn for 1980 now seems likely to be somewhat better than was thought possible, primarily because the real economy has been growing more slowly than was then assumed. (Increase of CPI in 1980 will probably exceed 25 per cent.) Finally, I should warn you that there will be a need to make some technical modifications to the stand-by arrangement partly because the Yugoslavs have been less successful than had been hoped some months ago in their external borrowing program.

October 2, 1980

Table 1. Yugoslavia: Targets and Latest Forecasts for Selected Economic Indicators for 1980

(Percentage change over 1979)

	Target under stand-by arrangement	Latest Forecast
Gross social product	5	< 4
GSP price deflator	17	27+
Nominal GSP	22	30+
Real personal consumption	3.8	< 3
Real government consumption	2.1	-6
Real gross fixed investment	5.8	3
Exports, volume	6.0	8
Imports, volume	1/	-9
Money supply	22	22
Domestic credit	22	22+

Source: Staff estimate.

1/ It was intended to keep the growth of imports in line with balance of payments capabilities.

Yugoslavia--Balance of Payments 1979-81

The attached table gives balance of payments estimates and forecasts for 1979-81. The revised forecast for the current account deficit in 1980 is based on the latest available data. For 1981, the two forecasts are based on very preliminary Yugoslav thinking.

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Prospects for 1980

The authorities expect that normal import-related credits, less a small amount of export credits extended by Yugoslavia, will cover gross repayments of principal on medium- and long-term debt. If gross financial credits currently being negotiated reach some $1.7 billion, already agreed net purchases from the Fund would maintain gross reserves at the low level to which they had fallen at end-1979.

Prospects for 1981

There are obvious uncertainties but the current deficit could lie in the range $1,800-$2,000 million. On the assumption that normal import-related credits, less export credits extended, cover gross repayments of medium- and long-term debt, financial credits of approximately $2,000 million would be needed to cover the current deficit. Borrowing from the Fund could be used to provide a much needed increase in gross official international reserves.

The external forecasts for 1981 assume a growth rate of less than 4 per cent in real GNP.

10/1/80

Yugoslavia--Balance of Payments
(In millions of U.S. dollars)

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(As a percentage of GSP)	(6.5)	(4.0)	(3.5)	(3.0)
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Balance	1,360	1,720	2,000	2,000
Net short-term capital and net errors and omissions	562	--	--	--
Balance	-1,739	-480	--	+200
Reserves at end of period	1,330 Sept 1,040	1,330 3/	... 2000 ...	
	~~1.0~~ ~~0.8~~	~~1.0~~	~~1.4~~	
	0.9 0.5	0.8	1.1	

1/ Forecast.
2/ Includes World Bank loans.
3/ Estimate.

Office Memorandum

TO : Mr. Whittome

DATE: October 1, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia--Borrowing Arrangements

The attached table sets out the estimates from various sources of the loans that Yugoslavia has asked for from the creditor countries for 1980.

The Yugoslav authorities believe that the negotiations can be finalized in time to disburse agreed loans in 1980. So far, only the Kuwait agreement has been signed. The Libyan agreement is expected to be signed in October and the Austrian on October 3. All the other agreements are still being negotiated. It is worth noting that the German banks are having difficulty getting the required information to prepare their consortium memorandum despite having sent someone to Belgrade to obtain data. There is a general complaint of Yugoslav inefficiency in the various negotiations.

Attachment

Yugoslav Borrowing in 1980

(In millions of U.S. dollars)

	What the Creditors Say They Have Been Asked For	What the Yugoslavs Think They Can Obtain in 1980		What Banks Think Can be Arranged for 1980 1/
Kuwait)		250		250
Libya)	450			
Iraq)		100		200
Austria	100	100	100	100
France	200	200		200
Germany	750	~~300~~-400		not specified
Italy	200	200		200
Switzerland	100	70		70
United States 2/) United Kingdom)	1,000	~~350~~-400	200+	485 3/
Total	2,800	1,570-1,720		1,905 4/

1/ Based on discussion with Deutsche Bank.
2/ Includes Canadian. Japan and industrial countries not included in table.
3/ See footnote 1. Deutsche Bank estimates based on discussions with Manufacturers Hanover, who will lead consortium with Chase and Lloyds. US$225 million from United States, US$60 million from Canada, US$100 million from United Kingdom, and US$100 million from Japan.
4/ Includes US$400 for Germany. 80 and

US 200+
Duff[illegible] 100 1 1/8 over for 6
UK
Ger 200
Fr 100-150
Switz 1st point 100 on suppliers
It 200

350
200
100
200
125
975
100
1050

Mr Rose

October 1, 1980

MEMORANDUM FOR FILES

Subject: Matters Discussed at Luncheon and Meeting With Yugoslav Delegates to Annual Meeting 1/

The Yugoslav delegates attending the luncheon and following meeting in Mr. Whittome's office on September 26, 1980 were Mr. Bogoev, Governor of the National Bank of Yugoslavia, Mr. G. Popovic, Assistant Federal Secretary for Finance, and Mrs. G. Hofmann, Director of Department for International Operations of the National Bank of Yugoslavia. The staff representatives comprised Messrs. Whittome, Rose, Tyler, and Manison.

During the luncheon and subsequent meeting, the following matters were discussed:

1. Balance of payments developments

a. Current account

Governor Bogoev stated that considerable progress had been made in reducing the current account deficit from the extremely high level of US$3.7 billion in 1979. Developments in the first eight months and 20 days of 1980 suggested that the current account deficit for 1980 could be around US$2.0-2.2 billion; on a cash flow basis it might be some US$0.2 billion lower. Developments in the trade account had been better than expected with the value and volume of exports rising by 34 per cent and 11 per cent, respectively, in the first eight months of 1980, compared with the corresponding period of 1979. Import volume fell by 10 per cent over the same period. Trends in invisible earnings from tourism and workers' remittances were very favorable also.

b. Capital account

Governor Bogoev said that disbursements of longer-term bank loans to date during 1980 were well below that planned earlier in the year. Although the flow of normal commercial credits, particularly those provided by suppliers, had been sufficient to finance the current account deficit, there was a need for additional external capital inflow to finance the amortization of loans (estimated to be nearly US$2.0 billion in 1980) and to help reconstitute the very low level of foreign reserves. Indeed, it was estimated that net capital inflow in 1980 should be around US$2.5 billion if gross official reserves were to rise by US$0.5 billion. Any shortfall in longer-term financial credits below US$2.0 million would be matched by increased drawings on shorter-term

1/ Some of the points raised with the Yugoslav delegates during the discussions were pursued in more detail at a subsequent meeting on September 29, 1980. This note has benefited from the latter meeting.

bank loans serving as bridging finance, implying at worst that gross official reserves would be restored to their end-1979 level. At the end of August, short-term bank credits outstanding amounted to US$1.7 billion; it was hoped to reduce them to US$0.6 billion by the end of the year.

2. External borrowing plans

Governor Bogoev noted that the shortfall in external inflow so far in 1980 was in part due to difficulties in obtaining the desired amount of loans from a number of overseas commercial banks. For 1980, the Yugoslav authorities had attempted to raise substantially the amount of external loans by approaching countries bilaterally in order to have them persuade their commercial banks to lend greater amounts to Yugoslavia. It was hoped that the terms on the new bank loans would be similar to those obtained in the past. The new approach to raising external funds on a bilateral basis had been prompted by the exceptionally high current account deficit recorded in 1979 and the resultant heavy drain on foreign exchange reserves. Governor Bogoev stressed that a discrete increase in the amount of gross inflows of capital would be needed for a number of years in order to not only finance heavy debt repayments and the reconstitution of reserves, but also to underpin the structural changes required in the Yugoslav economy. The sharp rise in oil prices and the poor agricultural harvest in 1980 and their very adverse effects on the balance of payments had emphasized the need for Yugoslavia to build up its domestic energy and agricultural supplies and to base domestic industry more on locally produced raw materials and energy sources. In addition, in view of the very large external financing needs, a coordinated approach was considered necessary. Moreover, if banks had been approached on ad hoc basis, as had been the past practice, failure to line up the requisite amount of financing may have resulted in very unfavorable consequences, including the need to obtain funds from sources where political strings were attached.

The Yugoslav authorities had now completed their exercise of approaching the countries from which they sought external finance. Governor Bogoev said that at this stage, it was very difficult to assess the amount of financing that could be secured from these countries. Final agreement on only a few loans had been reached while the amount provided by a number of commercial banks seemed to be dependent on how much would be provided to Yugoslavia by other sources, including the Fund.

Given the caveat of the various interrelated uncertainties involved, Governor Bogoev indicated that the following annual amounts might be forthcoming for a period of three years:

	In millions of U.S. dollars
OPEC	
Kuwait	250
Others 1/	100
Total	350
European countries	
Austria	100
Switzerland 2/	70
France)	400
Italy)	
Germany 3/	300-400
Total	870-970
Consortium of United States, United Kingdom, Canadian and Japanese banks	350-400
	350-400
Total	1,570-1,720

1/ Efforts were being made to obtain loans from Iraq and Libya, while the United Arab Emirates could be approached also.
2/ Swiss banks had agreed to provide SF 100 million; the Yugoslav authorities were seeking US$100 million.
3/ This amount was confidently expected.

The Kuwait loan had been signed. Among the European countries with which loan negotiations had been conducted, Austria was the only one where the loan agreement had been finalized. German banks had been asked to provide US$750 million, but the actual amount obtained was likely to be considerably less. Direct negotiations with German commercial banks had yet to take place, but were likely to be completed in 6-7 weeks' time. Rapid progress could be made in disbursing loans once a government guarantee was given. The Yugoslav authorities hoped to obtain US$200 million per annum for a period of three years each from the Italian and French banks; problems relating to loan guarantees were delaying borrowing agreements with commercial banks. However, the French Minister of Finance had assured the Yugoslavs on Sunday that the Government would guarantee such loans.

With regard to obtaining funds from the United States and the United Kingdom, it had been agreed to set up a consortium of banks from North America, the United Kingdom, and Japan for the purpose of lending to Yugoslavia. Other banks could participate also in the arrangement, such as those from Scandinavian countries. Chase Manhattan, Manufacturers' Hanover, and Lloyd's Bank would be coordinating the consortia loan. This consortia was expected to provide at least US$350 million per annum.

Given the current outlook, it was possible that loans from Western banks for financing noncurrent account needs (longer-term financial credits) might total US$1.6-1.7 billion per annum. Mr. Tyler thought that the Yugoslav authorities should make every effort to accelerate net capital inflow in the final quarter of 1980. At the same time, they should use the shortfall expected in 1980 to argue that there would be a greater financing need in 1981. Mr. Whittome said that, in negotiating loans with the commercial banks, it would be better not to mention the build up of reserves as one of the major objectives of such loans. Commercial bankers might press the Yugoslav authorities to use the Fund resources solely for this purpose. It would be preferable for the authorities to state that they were acting in advance in making preparations for meeting a possible substantial financing need over the coming years. Mr. Tyler observed that it would be helpful also if the Yugoslav authorities could better inform the overseas financial community of the favorable developments in the Yugoslav economy.

3. Use of Fund resources

Mr. Whittome outlined possibilities on the extent to which Yugoslavia might avail of the Fund for financing its balance of payments needs. At one extreme, under a special set of circumstances, Yugoslavia might be able to borrow up to 200 per cent of quota (SDR 554 million) over a period of three years. At the other extreme, Yugoslavia might purchase the fourth credit tranche and related supplementary financing; together with the amounts still available under the existing stand-by arrangement; this would allow purchases totaling SDR 291 million in 1981. A range of other possible arrangements within these extremes could be envisaged also. Mr. Whittome noted that in the past, it had been the policy of the Yugoslav authorities to make prudent use of Fund resources and not use such resources up to the maximum limit, thus leaving something in reserve for meeting unforeseen contingencies.

On the question of whether the Yugoslav authorities might wish to either modify or replace the existing stand-by arrangement, this could be resolved when more data became available on the performance of Yugoslav economy and when there was greater certainty as to the amounts of longer-term bank credits available. Governor Bogoev agreed that this matter could be discussed during the course of a staff mission to Belgrade in the second half of October.

In its negotiations with commercial banks, the Yugoslav authorities could state that they would be obtaining a certain amount of external financing from the Fund and that a specified sum was required from the commercial banks in order to meet the residual financing need. Alternatively, the Fund could meet the residual financing need after the Yugoslav authorities had agreed to a certain sum from the commercial banks. The latter approach could, however, be hazardous insofar as bankers knew of the magnitude of external financing that Yugoslavia could obtain from the Fund.

4. Performance under stand-by program

Governor Bogoev gave an account of developments to date in meeting objectives and performance criteria under the stand-by arrangement. With respect to the domestic economy, the growth rates of real GSP and domestic expenditure components now forecast for 1980 were likely to be lower than the targets specified at the time of formulation of the stand-by program (Table 1). In contrast, the increase in domestic prices is likely to be considerably greater than the target for the GSP price deflator of 17 per cent. The GSP price deflator was now expected to rise by at least 27 per cent in 1980. The recent acceleration in inflation was explained largely by the effects of the June devaluation and administered price adjustments to correct distortions, particularly those relating to prices of energy and agricultural products. The rapid rate of inflation was considered to be the most disturbing feature of recent developments in Yugoslavia.

Despite a sharp rise in July, growth rate of the money supply was expected to be kept in line with the planned rate of 22 per cent, which was in line with the targeted increase in the GSP. However, the expansion in net domestic assets of the banking system had been greater than that programmed under the stand-by arrangement; the performance criteria for June 30, 1980 had not been met while figures for August 1980 indicated that the September 30, 1980 ceiling would most likely be exceeded also (Table 2). Revised figures indicated that the substantial increase in bank credit in July and August was largely in accord with normal seasonal behavior. The higher than planned rate of credit expansion was attributable in part to the need to offset the higher than previously foreseen fall in net foreign assets of the banking system and due to the faster than expected rise in domestic costs and prices. Nominal GSP was now expected to rise by over 30 per cent in 1980. However, although the rate of domestic credit expansion was expected to exceed 22 per cent in the 12 months to December 1980, it was expected to be at least 6 percentage points below that of nominal GSP. Commercial banks had in fact been pressing for the rate of credit expansion of 26 per cent.

The staff representatives pointed out that National Bank credits to the Federation had exceeded the performance criterion set for June 30, 1980, the actual level being the same as the ceiling set for December 31, 1980. They suggested that the Yugoslav authorities make every effort to meet the performance criteria on National Bank credits to the Federation set for September 30, 1980.

The balance of payments test for June 30, 1980 had not been met in so far as the decline in the level of net convertible foreign assets of the National Bank, less exceptional financing since end-1979 of US$972 million was US$72 million in excess of that permitted. Data through August 1980 indicated also that the September 30, 1980 performance criterion for the balance of payments would not be observed.

With external borrowing being less than planned during 1980 the level of external convertible currency debt outstanding was US$500 million less than the ceiling for June 30, 1980 and the September 30, 1980 performance criterion was likely to be easily met.

The staff representatives stated that given the likelihood that performance criteria set for September 30, 1980 would be breached, it would be necessary to modify the stand-by program in order that Yugoslavia could make a further Fund purchase before the end of the year. In view of the progress made in adjusting the current account of the balance of payments and in curbing the growth of domestic demand, the Fund would probably support such a modification.

5. Fund mission

It was agreed that a staff mission for purposes of modifying the current stand-by arrangement and for conducting preliminary talks on the use of Fund resources in 1981, should begin discussions in Belgrade on October 29, 1980. This mission would include a World Bank staff member, together with an economist under the Fund Economist Program. Questions and tables to be completed would be given to the Yugoslav delegation prior to their departure from Washington, D. C.

It was agreed that a subsequent staff mission visit Belgrade from the second week of December onward for purposes of formulating a stand-by program for 1981.

L G Manison

L. G. Manison

cc: Mr. Whittome
Mr. Rose ✓
Mr. Tyler

Table 1. Yugoslavia: Targets and Latest Forecasts for Selected Economic Indicators for 1980

(Percentage change over 1979)

	Target	Latest Forecast
Gross social product	5	< 4
GSP price deflator	17	27+
Nominal GSP	22	30+
Real personal consumption	3.8	< 3
Real government consumption	2.1	-6
Real gross fixed investment	5.8	3
Exports, volume	6.0	8
Imports, volume	1/	-9
Money supply	22	22
Domestic credit	22	22+ 2/

Source: Staff estimate.

1/ It was intended to keep the growth of imports in line with balance of payments capabilities.
2/ To be kept to at least 6 percentage points below that of nominal GSP.

Table 2. Yugoslavia: Quantitative Performance Criteria in Stand-By Arrangement 1/

	1979 December 31 Actual	1980 June 30 Actual	1980 August 31 Actual	1980 Ceiling Under Program June 30	1980 Ceiling Under Program September 30 2/	1980 Ceiling Under Program December 31
Net domestic assets of the banking system; in billions of dinars	1,201	1,368	1,400	1,321	1,381	1,466
Net credit of the National Bank to the Budget of the Federation; in billions of dinars	68.7	77.9		76.4	77.4	77.9
Cumulative change in net convertible foreign assets of the National Bank; in millions of U.S. dollars 3/	...	-972		-900	-500	--
Convertible currency debt outstanding; in billions of U.S. dollars 4/	12.3	13.1		13.6	14.2	14.7

Source: Data supplied by the Yugoslav authorities.

1/ Quantitative performance criteria for 1981 to be determined at the time of the mid-term review.
2/ As additional purchases from the Fund cannot be made before November 15, 1980 when data relating to performance criteria for September 30, 1980 should be available, the latter is effectively the trigger date.
3/ Net of exceptional borrowing by commercial banks.
4/ Debt outstanding in convertible currency with original maturities of more than one year. Excluding outstanding purchases from the Fund and increases in exceptional borrowings by the commercial banks in 1980. Valued at exchange rates prevailing on December 31, 1979.

Mr Tyler

Office Memorandum

TO : Mr. Whittome DATE: October 1, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia--Borrowing Arrangements

The attached table sets out the estimates from various sources of the loans that Yugoslavia has asked for from the creditor countries for 1980.

The Yugoslav authorities believe that the negotiations can be finalized in time to disburse agreed loans in 1980. So far, only the Kuwait agreement has been signed. The Libyan agreement is expected to be signed in October and the Austrian on October 3. All the other agreements are still being negotiated. It is worth noting that the German banks are having difficulty getting the required information to prepare their consortium memorandum despite having sent someone to Belgrade to obtain data. There is a general complaint of Yugoslav inefficiency in the various negotiations.

Attachment

Yugoslav Borrowing in 1980

(In millions of U.S. dollars)

	What the Creditors Say They Have Been Asked For	What the Yugoslavs Think They Can Obtain in 1980	What Banks Think Can be Arranged for 1980 1/
Kuwait)		250	250
Libya)	450		
Iraq)		100	200
Austria	100	100	100
France	200	200	200
Germany	750	300-400	not specified
Italy	200	200	200
Switzerland	100	70	70
United States 2/)	1,000	350-400	485 3/
United Kingdom)			
Total	2,800	1,570-1,720	1,905 4/

1/ Based on discussion with Deutsche Bank.
2/ Includes Canadian. Japan and industrial countries not included in table.
3/ See footnote 1. Deutsche Bank estimates based on discussions with Manufacturers Hanover, who will lead consortium with Chase and Lloyds. US$225 million from United States, US$60 million from Canada, US$100 million from United Kingdom, and US$100 million from Japan.
4/ Includes US$400 for Germany.

YUGOSLAVIA

Special Brief for the Managing Director's Meeting

1. Personalities

Mr. Kostic is Minister of Finance and Mr. Bogoev is Governor of the National Bank.

2. Post-Tito period

Since President Tito's death in May, there has been a smooth transition and the system of collective leadership seems to be working.

3. Foreign borrowing

In July 1980, the Yugoslav delegation described to you ambitious borrowing plans; at that stage they had received indications of support from various governments. Yugoslavia will need to borrow substantially--Mr. Bogoev's estimate is US$2.5 billion a year for three years. A meeting was held on September 15 by the main industrial countries to discuss the position. The Fund was present. A further meeting is scheduled for October 2. The fact that Yugoslavia is a communist regime makes it impossible for them to borrow from Saudi Arabia and some other--but not all--Arab oil exporters.

4. Use of Fund resources

Since June 1980, Yugoslavia has had a stand-by arrangement for SDR 339.5 million, covering the second and third tranches with SFF (SDR 150 million drawn already, SDR 50 million to come in November). We have talked to Mr. Bogoev about the possibility of replacing this by a new two-year arrangement for a larger amount and Mr. Kostic knows of this. Another possibility might be a three-year EFF program, plus SFF but Mr. Kostic may be uneasy at such a suggestion, which is probably premature at this stage.

September 1980

Brief for the Thirty Fifth Annual Meeting

Exchange rate: A managed float has operated since 1973 with, in general, fairly small and frequent adjustments. In addition, there was a large discrete devaluation (by 30 per cent) in June, 1980. At end-August 1980 the exchange rate was Din 27.45 per US$1. The effective trade-weighted depreciation was 44 per cent over the last twelve months.

Quota: SDR 277 million, to be raised to SDR 415.5 million under the Seventh General Review; consent communicated.

Fund position: In 1979 Yugoslavia purchased the first credit tranche (SDR 138.5 million). In February 1980 Yugoslavia purchased the second 50 per cent of quota under the CFF (SDR 138.5 million). In June 1980 the Executive Board agreed to a stand-by arrangement (SDR 339.325 million) for the second and third tranches plus SFF for the period to December 31, 1981. On August 30, 1980, the Fund holdings of dinars were equivalent to 317.6 per cent of quota, or 179.7 per cent excluding oil facility and CFF purchases.

Last consultation discussions: February 1980.

Profit of gold sales: Yugoslavia has received US$32.9 million from the distribution of profits from gold sales. One third of this amount has been transferred to the Trust Fund.

Political developments: Following the death of President Tito in May 1980, there has been a smooth transition to the system of collective leadership. The economy was affected to only a limited extent by the political uncertainty in the period before and after the death.

Biographical summary: Mr. Peter Kostic, the Federal Secretary of Finance and Governor of the World Bank, is an engineer by training and has held important posts at the federal level and in Serbia. Mr. Ksente Bogoev, a Macedonian and former Premier of that Republic, has been Governor of the National Bank and Governor of the Fund.

Domestic developments: The mild stabilization program attempted in 1979 was unsuccessful. Gross social product grew by 7 per cent and inflation accelerated to 23 per cent. For 1980 the authorities are implementing a much stronger stabilization program. Real GSP growth is now expected to decelerate to 4 per cent, but inflation will again exceed 20 per cent.

Balance of payments and reserve position: The current account deficit rose from US$1.3 billion in 1978 (3 per cent of GSP) to US$3.7 billion in 1979 (6 per cent of GSP). For 1980, the stabilization program forsees a current account deficit of US$2.5 billion (3.5 per cent of GSP). For the first half of the year, exports have shown large volume increases, and imports have fallen in volume terms. Foreign borrowing has not gone as quickly as planned so far and at the end of July 1980, official international reserves totaled

US$970 million (gold at SDR 35 per ounce), 1/ equivalent to about four weeks of convertible imports. The convertible debt service ratio was almost 20 per cent in 1979 and will increase in 1980.

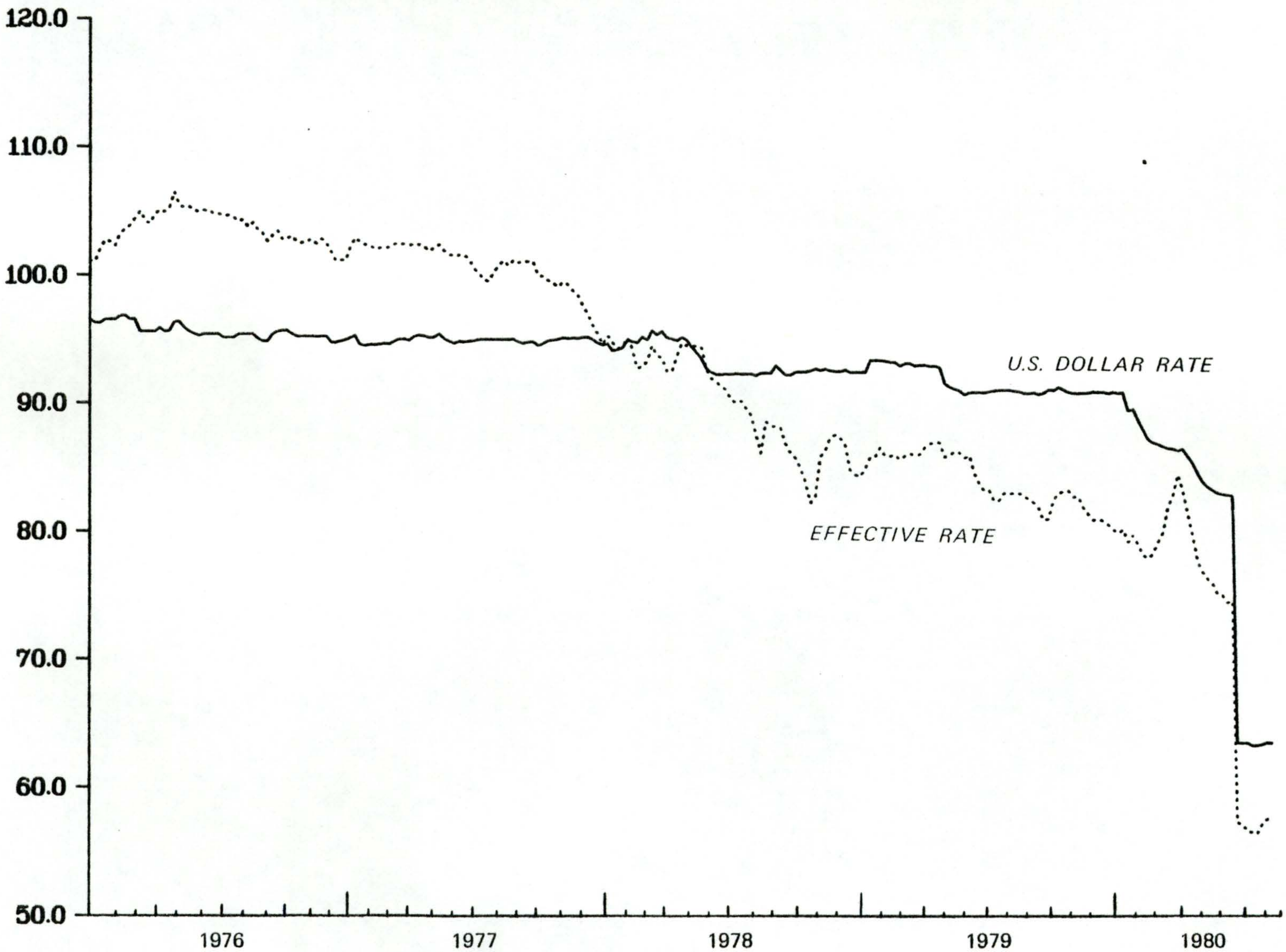
August 1980

1/ Excluding gold holdings of 1.85 million fine ounces, reserves amounted to US$892 million. Gold at US$600 per ounce would be valued at US$1,110 million.

YUGOSLAVIA

INDICES OF U.S. DOLLAR RATE AND TRADE WEIGHTED EFFECTIVE EXCHANGE RATE

(INDEX 1975 = 100, WEEKLY DATA)



Departmental Brief - Yugoslavia

1. Consultation discussions

The last Article IV consultation discussions were started in February and completed by a mission in May 1980, which also concluded negotiations on a stand-by arrangement (second and third credit tranches plus SFF) in the amount of SDR 339.325 million, for the period through end-1981.

2. Use of Fund resources

Yugoslavia may succeed in reducing the current account deficit from US$3.7 billion in 1979 to US$2.5 billion or less in 1980, and to less than US$2 billion in 1981, but the need for external borrowing is high and will remain so. It has already been agreed in principle with Governor Bogoev that the present stand-by arrangement might be replaced by a new two-year program for a substantially larger amount, involving the fourth credit tranche, associated use of SFF, and SDR 250 million of "special circumstances" SFF. This would total SDR 541 million. An arrangement on the basis of 200 per cent of existing quota per year would imply SDR 554 million in both 1980 and 1981. The Yugoslavs have tentatively agreed that a mission to review progress under the existing arrangement, and to negotiate its replacement, should visit Belgrade in October: probably a follow-up mission will be necessary at the end of the year or in early 1981.

3. Exchange rate system

The system of gradual effective depreciation by frequent small adjustments worked reasonably well in 1978 and 1979, though the staff view was that the cumulative movement was probably insufficient to correct fully for the loss of competitiveness during the previous period of relative stability. Therefore, the large (30 per cent) discrete devaluation in June 1980 was desirable. Since then the nominal rate (in terms of U.S. dollars) has stayed stable, and changes in the effective rate have been a by-product of the dollar's relationships to other currencies in the basket. There is, therefore, a question whether the recent stability is temporary or whether the Yugoslavs have in fact adopted a policy of a stable peg against the dollar. If the latter, we would expect difficulties to emerge once the benefits of the 30 per cent June depreciation are eroded. The sharp increase in domestic prices following the depreciation suggests that these benefits may be eroded very quickly.

4. Recent economic developments

The delegation should be asked for an assessment of performance so far under the existing stand-by arrangement, including the reasons for the accelerated inflatiion and the apparent shortfall in medium- and long-term foreign borrowing. Some performance criteria were not met in June 30, 1980 and we should enquire what the situation is likely to be for end-September, since this will govern a mid-November purchase of US$50 million. We should indicate that a further informal meeting of the main members of the G-10 is to have a follow-up meeting on October 2, 1980 to the one held in Paris on September 15, 1980 to discuss Yugoslavia's foreign borrowing needs.

5. Employment of Yugoslavs

After staff recruiting visits, an appointment was virtually decided upon for an official recommended by the Ministry of Finance. At the last minute that person was made unavailable because he returned to the Ministry of Finance of Montenegro. Any future appointments will depend on available openings and the availability of qualified Yugoslav applicants.

September 1980

Yugoslavia
Switzerland

MEMORANDUM FOR THE FILES

Subject: Yugoslavia--Swiss Delegation September 26, 1980

Minister Jean Zwahlen, Head of the Finance and Economic Service of the Department of Foreign Affairs, Vice-Director Daniel Kaeser, Federal Office of Finances, and Mr. Sven Meili, Counselor for Economic Affairs, Embassy of Switzerland, visited me today to discuss Yugoslavia. Mr. Kaeser had been present at the meeting in Paris on September 15, 1980.

Mr. Zwahlen commented that Swiss banks had in general been very cautious with respect to lending to Yugoslavia so far this year. He thought that the approaches that the Yugoslav authorities had made in Europe in June had not been particularly efficient and had, therefore, not had the hoped for encouragement of bank lending. In particular, the Yugoslavs had apparently not given enough indication of the improvement that was occurring as a result of the measures taken. In addition, they had said that part of their borrowing requirement was needed to permit an increase in gross official reserves. In general, commercial banks had not felt that this was a reasonable basis for their lending and governments had not been particularly sympathetic either. In this regard, I explained that the Fund certainly thought there were strong reasons for increasing the level of gross official reserves and had allowed for that in the stabilization program. Moreover, the increase in reserves could be looked at as coming principally from borrowing from the Fund and not from borrowing from commercial markets.

GT

Geoffrey Tyler

cc: Mr. Whittome

Matters to be Discussed at
Luncheon with Yugoslav Delegates

1. Balance of payments

--Actual and prospective developments in the current account for 1980, including estimates for main invisible items such as tourism and workers' remittances.

--Extent to which current account deficit in 1980 has been financed from longer-term market loans, short-term private credits, short-term borrowing by the National Bank and exceptional borrowing by other banks.

--Prospects for foreign financing in 1980 and its sources.

--What has been asked for bilaterally and from whom. Why has the emphasis been put on bilateral negotiations rather than approaching the banking systems for multinational consortia. Attitude of credit countries.

2. Performance criteria under current stand-by arrangement

--Reasons for nonobservance of June 30, 1980 ceilings on bank credit and National Bank credit to the Federation, and decline in net convertible foreign assets of the National Bank.

--Prospects of meeting performance criteria specified for September 30, 1980 and December 31, 1980, and any measures taken to ensure their achievement. If some cannot be met, will modifications of the performance criteria need to be large? Was the abrupt increase in bank credit and the money supply in July a temporary phenomenon?

3. Prices

--Factors causing recent sharp rise in domestic prices, including impact of the June devaluation.

--How will a decrease in the rate of inflation come about?

--Prospects for prices and incomes during remainder of 1980.

4. Exchange rate policies

--Has the June devaluation been successful?

--What will be the policy for adjusting the rate in the period ahead?

5. Propsects for 1981 and beyond

--Preliminary views of the authorities as regards objectives for the balance of payments, external reserves, the real growth rate, and domestic prices for 1981.

6. Mission in October

--It can be explained as a normal review mission with additional need to discuss modification of stand-by arrangement.

--When would they like us to arrive.

--We can supply questionnaire and tables to be completed to the delegation before it leaves Washington.

--When should the final negotiation of new stand-by arrangement take place; December 1980 or early 1981? (Should we be tentative until we can learn of Romanian position?)

--Warn that we probably shall include Bank person.

--What amount would Yugoslavia like and length of arrangement.

7. Meeting of lenders on October 2, 1980

--Mention meeting and staff attendance.

The Managing Director September 26, 1980

L.A. Whittome

Yugoslavia

The Yugoslavs call on you tomorrow morning. Meetings with them today show that the current account position of the balance of payments is improving even more rapidly than had been planned (we had programmed a deficit of \$2.5 billion against \$3.7 billion in 1979 they now expect it to be between \$2.2 billion and \$2.0 billion). However, this is partly a consequence of greater than expected slowing down in the economy, (planned rise in GSP was 5 per cent outturn likely to be between 3-4 per cent). Prices are a problem (CPI up 27 per cent) because of effects of devaluation, oil price increase, and other adjustments.

The main immediate worry is the borrowing on capital account. They believe that they can borrow approximately \$1.6 billion (excluding normal borrowing on suppliers credits etc., of \$2 billion) but this figure may (1) be somewhat optimistic and (2) is most unlikely to be disbursed, as they assume, during this calendar year. Countries they have approached think that the Yugoslavs should first make the maximum possible use of the Fund. However, it is clear that the Yugoslavs, largely because of the reservations of the Ministry, are only thinking in terms of the present stand-by for 1980 and later a new stand-by covering 1981 of approximately \$300 million.

I don't think we should now be more active. We have made it clear that we would be able to lend significantly larger amounts should the program continue to justify it and the need be there. In practice I suspect that events will force them later this year to borrow more than they now plan. Incidentally 200 per cent of quota is SDR 554 million.

cc: Deputy Managing Director
Mr. Watson

Office Memorandum

TO : Mr. Whittome

DATE: September 25, 1980

FROM : Geoffrey Tyler

SUBJECT : Yugoslavia--Meeting With Governor Bogoev

I attach a list of topics we need to discuss with Mr. Bogoev and his colleagues tomorrow.

Attachment

cc: Mr. Manison

Office Memorandum

TO : Mr. Whittome

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia

DATE: September 22, 1980

Messrs. John Guenther, William Hawley (Vice President, New York), and Robert Winchester (Vice President, Vienna), of Citibank, called to discuss Yugoslavia. I gave them a factful description of Fund relations as they exist and economic developments so far in 1980.

In the discussion it became clear that at best until now banks generally had been bearish regarding Yugoslavia, partly because of political factors, but also because they lacked knowledge of the improved economic performance. The Germans in particular feel this way. For the moment, the amounts that banks feel able to commit are substantially less than Yugoslavia is requesting, but the visitors thought this situation could improve over the next couple of weeks as the Yugoslavs put their case directly. There have been meetings in Europe this week and more are scheduled for New York next week.

Interestingly enough, the general position of banks was said to place Yugoslavia as no better a risk than Poland, partly because of a belief that the U.S.S.R. stood behind the latter. (Personally, I cannot easily see the West being any more willing to have Yugoslavia default than the U.S.S.R. to have Poland do so.)

It was also said that some banks, including the Germans, have been toying with the idea of phasing Yugoslav loans and directly linking them to Fund lending and conditionality. The Yugoslavs had not been very forthcoming on this.

Last

2

September 19, 1980

MEMORANDUM FOR FILES

Subject: Meeting With Yugoslav Delegation

Mr. Stojiljkovic told me that he has not been able to reach either Mr. Bogoev or Mr. Marjanovic regarding the meeting and luncheon on Friday, September 26, because they have both left Belgrade. However, Mr. Stojiljkovic said he would hope to be able to confirm the meeting by Monday or Tuesday and asked us to keep the time open.

GT.

Geoffrey Tyler

cc: Mr. Whittome

LAW

Office Memorandum

CONFIDENTIAL

TO : The Managing Director
The Deputy Managing Director

DATE: September 17, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia--Paris Meeting to Discuss Debt Position

A meeting was held in the French Ministry of Finance on the afternoon of September 15, 1980 with representatives from France, Germany, Italy, Japan, Switzerland, the United Kingdom, and the United States. The Austrians could not attend but had conveyed their position. The Yugoslavs did not attend but had agreed that a Fund staff member be present.

At the Chairman's request I gave a short resume of the domestic and external developments in 1980, the position of the existing stand-by arrangement (SDR 339 million), and the expectation that a new multi-year stand-by arrangement would replace it for 1981-82. I indicated that on the basis of present thinking and assuming a satisfactory program this would make available from the Fund in gross terms SDR 338 million in 1980, including SDR 138 million already obtained under the CFF, and SDR 554 million in each of 1981 and 1982. Oil facility repurchases would reduce the net amount available to around $375 million in 1980 and $650 million in 1981 and 1982.

There was a feeling among some of the delegates, especially the United Kingdom and the United States, that the Yugoslavs should try to obtain funds directly from the market via international consortia and specifically the Fund was asked to try to persuade the Yugoslavs that this was in their interest. Most delegates referred either to their nonexistent or limited ability either to offer direct government loans or influence their banks. At the Chairman's request each delegate gave an indication of what his country had been asked for and what feasibly might be forthcoming. An attached table summarizes the replies, although some of them were ambiguous. As can be seen, the amounts described as potentially available fall significantly short of the Yugoslav request, particularly in the case of the United States and Germany.

In the stand-by program, it is implicit that a large part of purchases from the Fund together with the so called exceptional borrowings by Yugoslav commercial banks be used to rebuild gross international reserves of the National Bank of Yugoslavia, which were run down drastically in 1979. It would be fair to say that the delegations were not overly enthusiastic on this point and were quite prepared to have reserves remain at present levels and thereby reduce Yugoslavia's borrowing requirements from creditor countries. In passing, it was mentioned that the OPEC countries have been asked for $450 million (Libya, Iraq, and Kuwait), which will probably be forthcoming to finance oil shipments.

The outcome of the meeting was at best mixed. On the one hand, the creditors were basically sympathetic and recognized that the Yugoslavs have a genuine program which is making progress, albeit with inflation still a major problem. However, they mostly would like Yugoslavia to borrow normally from the market rather than bilaterally. Eventually, it was agreed that the group should meet in Washington at 2.30 p.m. on Thursday October 2, 1980. This will permit the staff to talk with the Yugoslavs and obtain more details of the latest balance of payments and debt position. For their part, the creditor countries will canvas their own banks to see more clearly what is possible from the latter.

My personal view is that the Yugoslavs may have been less than fully efficient in their market approaches for funds. Be that as it may, almost three quarters of the year has gone and medium- and long-term borrowing seems far behind schedule. Presumably a lot of short-term bridging finance has been necessary. It is hoped that the rest of the year brings in a reasonable amount of medium- and long-term credits or else the requirements for these maturities will be high in 1981 and difficult for the market to absorb, despite a substantial improvement in the current account.

In conclusion, it may be worth recording that the Yugoslav abhorrence of anything even suggesting a formal rescheduling exercise was accepted by all. It was agreed that this and the forthcoming meeting be treated very confidentially.

Attachment

cc: Mr. Whittome
Mr. Watson

Yugoslavia Borrowing Requests

	What it has asked for	What it may be able to get
Austraia	About $100 million p.a.	$100 million (not clear if p.a.)
France	$300 million p.a. government loan	Implication that may be able to respond
Germany	$750 million p.a. for 2 years	$300-400 million (p.a.?)
Italy	Around $200 million	Could supply
Japan	Not approached	Unable to help officially
Switzerland	$100 million p.a. for 3 years	Still considering
United Kingdom	$200 million over 2 years	Perhaps $200 million syndicate loan
United States	$1,000 million	$100-200 million p.a.

SEP 17 1980

CONFIDENTIAL

Office Memorandum

JL

TO : The Managing Director
The Deputy Managing Director

DATE: September 17, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia--Paris Meeting to Discuss Debt Position

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In conclusion, it may be worth recording that the Yugoslav abhorrence of anything even suggesting a formal rescheduling exercise was accepted by all. It was agreed that this and the forthcoming meeting be treated very confidentially.

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cc: Mr. Whittome
Mr. Watson

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Italy	Around $200 million	Could supply
Japan	Not approached	Unable to help officially
Switzerland	$100 million p.a. for 3 years	Still considering
United Kingdom	$200 million over 2 years	Perhaps $200 million syndicate loan
United States	$1,000 million	$100-200 million p.a.

called: 9/17 G.T.

MEMORANDUM FOR THE FILES September 17, 1980

Subject: Yugoslavia--Annual Meeting

I have spoken with Mr. Stojilkovic and suggested that he try to arrange for the Yugoslav delegation to meet with Mr. Whittome, Mr. Rose, and myself on Friday, September 26 between 2.00 and 3.45 p.m. He will let me know whether this will be acceptable to Mr. Bogoev.

Geoffrey Tyler

cc: Mr. Whittome
Mr. Rose
Mr. Manison

Sept 1980

Mr Whitehouse

Yugoslavia

1) Repurchases from Fund – SDR 46.2 mn. in 1980

2)

(In billions US dollars)

	1977	78	79	80 Official prog.	80 LG.M prog.
Long-term capital					
Gross drawings	2.7	2.8	3.2	4.3	3.9
Net	1.4	1.4	1.4	2.5	1.8
Exceptional financing	0.1	0.4	0.3	0.4	0.4+

cc dupe

September 11, 1980

MEMORANDUM FOR FILES

Subject: ~~Annual Meeting~~--Greece, Israel, Romania and Yugoslavia

I have asked Mr. Tyler to arrange meetings with each of his countries and said that I would like Mr. Rose to be present for the meetings on Romania and Yugoslavia and Mr. Schmitt for the meetings on Greece and Israel. I would like to be present at all the meetings.

L.A. Whittome

cc: Mr. Rose
Mr. Schmitt
Mr. Tyler

Office Memorandum

TO : Mr. Tyler DATE: September 11, 1980

FROM : L. G. Manison

SUBJECT : Yugoslavia--Developments and Prospects for the External Capital Account and External Debt

In recent years, Yugoslavia has financed the bulk of its current account deficit through drawings by both the Government and enterprises on long-term commercial credits. In both 1977 and 1978, gross drawings on the long-term capital account amounted to approximately US$2.75 billion and were responsible mainly for net long-term capital inflow of US$1.4 billion in each of these years (see table below). This inflow enabled a modest rise in external reserves to take place despite substantial current account deficits. As the figures in parentheses show, this phenomenon was particularly apparent for transactions with the convertible currency area.

	1977 Actual	1978 Actual	1979 Provisional actual	1980 Projected
	(In millions of U.S. dollars)			
Current account deficit	-1,315 (-1,020)	-1,283 (-1,272)	-3,661 (-3,304)	-2,490 (-2,330)
Long-term capital				
Gross drawings	2,665 (2,289)	2,800 (2,430)	3,160 (2,800)	4,320 (3,970)
Net inflow	1,402 (1,180)	1,350 (1,100)	1,360 (1,100)	2,470 2.5 1.8 (2,310)
Exceptional financing	75	350	250	400
Reserve movements (increase-)	-171	-429	1,452	-417

In 1979 the increase in drawings on long-term commercial credits was not commensurate with the sharp rise in the current account deficit and, consequently, external reserves recorded a substantial fall. In fact, increased drawings on credits from convertible currency countries were approximately matched by higher repayments. Thus, there was little increase in net capital inflow in 1979 with such inflow from the convertible currency area remaining at US$1.1 billion. In addition, exceptional financing by the commercial banks declined from US$350 million to US$250 million.

For 1980 the projections in the last staff papers to the Executive Board indicated that total drawings on long-term credits would rise by US$1.2 billion to US$4.3 billion in 1980 (Table 1a). Repayments were expected to rise by a small amount so that net external capital inflow was expected to increase to US$2.5 billion, compared with the US$1.4 billion annual level of the last three years. We do not know the extent to which the planned drawings in 1980 were dependent upon the negotiation of new loans during this year. However, the greater than anticipated decline in external reserves (under the balance of payments test the decline was US$72 million greater than that anticipated in the first six months of the year) during 1980, and the fact that convertible currency external debt outstanding at the end of June 1980 was US$500 million below the proposed ceiling for that date, together with reports that the Yugoslavs are finding difficulty in obtaining certain bank loans, suggest that loan drawings to date during 1980 have been considerably less than planned. It is possible that net capital inflow from convertible currency countries may amount to about US$1.7 million in 1980 compared with the planned figure of US$2.3 million (Table 1b). Presently, it seems that the overall balance of payments will be in approximate balance rather than producing a surplus of around US$400 million as projected by the Yugoslav authorities. This would mean that the balance of payments test for December 31, 1980 is unlikely to be met (Table 2).

The prospect of lower than anticipated external borrowings, combined with the better than expected export performance, both for goods and services in 1980, would suggest that the external debt service ratio with convertible currency countries will be somewhat below that of 19.5 per cent in 1979 and that of 17.5 per cent implied by the June balance of payments and external debt projections for 1980 (Table 3). If drawings on long-term loans this year amount to US$3.3 billion instead of the planned level of US$4.0 billion, this could reduce external debt service payments by around US$40-50 million. In addition, if exports of goods and services to the convertible currency area rise by around 20 per cent in 1980 instead of 15 per cent as projected in June, the external debt service ratio would be approximately 16.5 per cent for convertible currency countries, whereas the overall debt service ratio would be around 14.3 per cent. Thus, the Yugoslav authorities should experience little difficulty in keeping their convertible debt outstanding to within the limits under the stand-by program.

If Yugoslavia makes further progress in adjusting the current account of the balance of payments, the deficit could be between US$1.5 billion and US$2.0 billion in 1981. In order to produce an overall balance of payments surplus of US$0.5 billion in 1981, it is estimated that net long-term capital inflow would then have to range from US$1.5 billion to US$2.0 billion (Table 1a). These estimates assume that exceptional borrowing from the commercial banks will amount about US$500 million in 1981. Given the estimated debt repayments and loan extensions in 1981, this would imply gross drawings on long-term loans ranging from US$3.3 billion to US$3.8 billion. The former figure would appear in line with the "normal" behavior of banks in extending loans to Yugoslavia. However, if the current account deficit is around US$2.0 billion, then Yugoslavia may encounter considerable problems in securing the requisite net borrowing (including exceptional financing) of about US$2.5 billion from commercial banks.

Attachments

Table 1a. Yugoslavia: Summary Balance of Payments, 1977-81 1/

(In billions of U.S. dollars)

	1977	1978	1979 Provisional actual	1980 Forecast June	1980 Forecast Sept. 2/	1981 Forecast I 3/	1981 Forecast II 3/
A. Exports, f.o.b.	5.2	5.8	6.8	8.2	8.4	...	...
Imports, c.i.f.	-9.8	-10.4	-14.0	15.3	15.2	...	...
Trade balance	-4.6	-4.6	-7.2	-7.0	-6.8	...	...
B. Services and transfers, net	3.3	3.3	3.5	4.5	4.7	...	...
Current account balance	-1.3	-1.3	-3.7	-2.5	-2.1	-2.0	-1.5
C. Long-term capital, net	1.4	1.4	1.4	2.5	1.9	2.0	1.5
Of which: Drawings	(2.7)	(2.8)	(3.2)	(4.3)	(3.6)	(3.8)	(3.3)
Repayments	(-1.1)	(-1.4)	(-1.7)	(-1.8)	(-1.7)	(-1.8)	(-1.8)
D. Short-term capital, including bilateral balances, and errors and omissions; excluding G	--	--	0.6	--	--	--	--
E. Total (A through D)	0.1	0.1	-1.7	--	-0.2	--	--
F. Allocation of SDRs	--	--	--	--	--	--	--
G. Exceptional financing	0.1	0.3	0.2	0.4	0.3	0.5	0.5
H. Total (A through G)	0.2	0.4	-1.5	0.4	0.1	0.5	0.5

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Totals may not add because of rounding.

2/ Guesstimates based on partial information on developments to date during 1980.

3/ In one case, it is assumed that the current account deficit will be reduced to US$2.0 billion, while in the other case it is assumed that the deficit will be US$1.5 billion in 1981. It is further assumed that there is a target to raise external reserves by US$500 million.

Table 1b. Yugoslavia: Summary Balance of Payments
Convertible Currency Area, 1977-80 1/

(In billions of U.S. dollars)

	1977	1978	1979 Provisional actual	1980 Forecast June	1980 Forecast Sept. 2/
A. Exports, f.o.b.	3.5	4.0	4.8	5.5	5.7
Imports, c.i.f.	-7.6	-8.4	-11.3	-12.0	-11.9
Trade balance	-4.1	-4.4	-6.6	-6.5	-6.2
B. Services and transfers, net	3.0	3.1	3.3	4.2	4.4
Current account balance	-1.0	-1.3	-3.3	-2.3	-1.8
C. Long-term capital, net	1.2	1.1	1.1	2.3 1.7	1.6
Of which: Drawings	(2.3)	(2.4)	(2.8)	(4.0)	(3.3)
Repayments	(-0.9)	(-1.2)	(-1.6)	(-1.6)	(-1.5)
D. Short-term capital, including bilateral balances, and errors and omissions; excluding G	--	0.2	0.5	--	--
E. Total (A through D)	0.1	0.1	-1.7	--	-0.2
F. Allocation of SDRs	--	--	--	--	--
G. Exceptional financing	0.1	0.3	0.2	0.4	0.3
H. Total (A through G)	0.2	0.4	-1.5	0.4	0.1
I. Reserve movements (increase -)	-0.2	-0.4	1.5	-0.4	-0.1

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Totals may not add because of rounding.
2/ Guesstimates based on partial information on developments to date during 1980.

Table 2. Yugoslavia: Quantitative Performance Criteria in Proposed Stand-By Arrangement

	1979 December 31 Actual	1980 Latest Actual	1980 Proposed Ceilings Under Program June 30	September 30	December 31
Net domestic assets of the banking system; in billions of dinars	1,201	1,322 2/	1,321	1,381	1,466
Net credit of the National Bank to the Budget of the Federation; in billions of dinars	68.7	75.7 2/	76.4	77.4	77.9
Cumulative change in net convertible foreign assets of the National Bank; in millions of U.S. dollars 3/	...	-972 4/	-900	-500	--
Convertible currency debt outstanding; in billions of U.S. dollars 5/	12.3	13.1 4/	13.6	14.2	14.7

Source: Data supplied by the Yugoslav authorities.

1/ Quantitative performance criteria for 1981 to be determined at the time of the mid-term review.
2/ End-May 1980.
3/ Net of exceptional borrowing by commercial banks.
4/ End-June 1980.
5/ Debt outstanding in convertible currency with original maturities of more than one year. Excluding outstanding purchases from the Fund and increases in exceptional borrowings by the commercial banks in 1980. Valued at exchange rates prevailing on December 31, 1979.

Table 3.
Yugoslavia: Selected Aggregates and Ratios
Relating to the External Sector

(In millions of U.S. dollars)

Regarding SDR 1 bn end 79

	1977 Actual	1978 Actual	1979 Provisional actual	1980 Projected
Current account deficit (excluding official transfers)	-1,315	-1,283	-3,661	-2,490 1/
Nominal GDP in U.S. dollars	37,676	44,105.3	54,655.7	53,988.5 1/
Current deficit as percentage of GDP	3.5	2.9	6.7	4.6 1/
External debt outstanding; at end of period	9,540	11,833	14,973	...
Ratio of external debt to GDP; in per cent	25.3	26.8	27.4	...
External debt service	1,460	1,795	2,480	2,650 2/
Amortization	(1,050)	(1,300)	(1,700)	(1,750) 2/
Interest	(410)	(495)	(780)	(900) 2/
Debt service ratios; in per cent 3/				
--Convertible currencies	15.0	16.9	19.5	17.5 4/
--Total	13.8	14.9	17.1	15.2 4/

Sources: Data supplied by the Yugoslav authorities; and staff estimates.

1/ Estimates given for the latest WEO exercise.
2/ Estimates given to staff by Yugoslav authorities during the last consultation-stand-by mission.
3/ Ratio of external debt service to exports of goods and services (valued at current exchange rates).
4/ Based on export projections given in latest staff papers to Executive Board which are the same as those submitted for the latest WEO exercise. Assumes that exports of services to the convertible-currency area account for 93 per cent of the total.

September 9, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia

Jack Guenther rang me today to ask whether he could call upon me with two of his colleagues to discuss Yugoslavia. Apparently he is to see the Yugoslav delegation prior to the Annual Meeting. I agreed. The meeting will be on September 19.

Geoffrey Tyler

cc: Mr. Whittome

September 9, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia

I telephoned Mr. Camdessus this morning. He had not yet received the telex from Mr. Mentré so I confirmed that we would send Mr. Tyler to the meeting on the 15th. I said that I would like to touch on two points.

First, what was it really that he expected of us at this meeting. He said that he would hope that we could give a concise and up-to-date review of the immediate Yugoslav economic position concentrating very much on the external side. Secondly, he hoped that we would be able to make estimates of the external financing needs of Yugoslavia reasonably certain for 1980 and some guestimate for 1981. Third and lastly, he would hope that we could give some estimate of the extent to which the financing required could be expected to be provided through normal trade and banking channels or would require special intragovernment assistance. He added of course that these reliable up-to-date figures on the external debt situation would also be very relevant. I said that we would do our best.

The second point I raised was the possibility of Mr. Tyler touching base with him before the meeting. He welcomed this and suggested that Mr. Tyler call on him at his office some twenty minutes before the meeting was scheduled to start.

L.A. Whittome

cc: Mr. Tyler

CONFIDENTIAL

September 9, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia

At Mr. Cross' suggestion I spoke to Tom Leddy this afternoon. He said that as we had known the Yugoslavs had asked the Administration for help in persuading the New York banks to lend substantial amounts to Yugoslavia and the Secretary had spoken on a number of occasions with certain U.S. banks. Over the last two days Fred Bergsten had been closely in touch with them again.

The trouble was that the U.S. banks wished to set up a syndication which would involve commercial banks in many countries, whereas the Yugoslavs had sought the support of each individual main industrial country vis-à-vis its banks. He said also that the United States had participated in a very small group chaired by Camdessus on this issue but that not much had yet come out of it.

I told him that we intended to give our view of what was happening in the present program and to sketch out what we might do after the Annual Meeting. He said that this would be particularly helpful as the United States at least were without any recent up to date information and moreover they were not aware that we might be prepared to cancel the present arrangement and substitute it with a larger one toward the end of this year.

I told Leddy that Mr. Tyler would attend for the Fund and he said that Fred Bergsten would be the U.S. representative.

L. A. Whittome

cc: Mr. Tyler

September 9, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Meilli of the Swiss Embassy has asked that I be willing to see Mr. Zwahlen, Minister of Finance and Economic Services, on September 26. I agreed to the meeting.

GT

Geoffrey Tyler

cc: Mr. Whittome

Office Memorandum

TO : Mr. Whittome

DATE: September 9, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia

	1979	1980
	(In per cent)	
Debt service ratio	19.5	19-20
Current account deficit / Gross social product	6.0	3.5

YUGOSLAVIA

Brief for Managing Director's Lunch With Executive Directors

The Yugoslav authorities have given top priority to halving the current account deficit to US$2.0-2.5 million in 1980 or from 6 per cent of GSP in 1979 to 4 per cent. Reflecting a deliberately engineered slowdown in the growth of the economy (growth rate of industrial production halved to 4.5 per cent in the first part of 1980) developments in the external trade account in the first six months of 1980 showed a marked improvement; compared with the first half of 1979, exports volume rose by 12 per cent while imports volume fell at a similar rate. The trade deficit of US$3.25 billion was less than half that planned for the full year. Receipts from tourism have risen appreciably with reports suggesting an increase of 50 per cent. In view of these developments, the current account deficit in 1980 should be below US$2.5 million which the Yugoslav authorities in their letter of intent stated would be the maximum permissible level. So far in 1980, medium- and long-term borrowing has been slower than planned, for at least partly explainable reasons, and hence temporarily more reliance has been placed on short-term borrowing.

Prices have risen at a considerably faster rate than planned and are now about 30 per cent higher than a year earlier. The implicit GSP deflator is likely to rise by about 25 per cent in 1980, compared with the planned increase of 17 per cent under the stand-by program and 20 per cent in 1979. In May 1980, net personal incomes per worker were 17 per cent above a year earlier implying a fall in real earnings of about 8 per cent over this period.

In the first five months of 1980, domestic bank credit expanded at an annual rate of over 24 per cent which compares with a planned rate of 20 per cent over the first half of 1980. With net foreign assets falling by a greater amount than expected, the increase in the money was approximately in line with the planned annual growth rate of 22 per cent.

Data on developments in the public sector in 1980 are very limited, but National Bank lending to the Federation is in line with the 1980 Plan.

Discussion of performance under the existing stand-by program and preliminary talks on its replacement by another arrangement will take place during the course of the Annual Meeting.

September 1980

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OFFICIAL MESSAGE
INTERNATIONAL MONETARY FUND
Washington, D.C. 20431

cc: GT

TIME RECEIVED le 5 septembre 1980

ADDRESS

TRESOR PARIS (FRANCE)

Special Instructions

TELEX TRESOR DE MENTRE DE LOYE SON NO. F-80/107 POUR MM. CAMDESSUS, LAGAYETTE

JE VOUS CONFIRME QUE M. WHITTOME EST D'ACCORD POUR QU'UN REPRESENTANT DU FONDS MONETAIRE PARTICIPE A LA REUNION PREVUE LE 15 SEPTEMBRE A 16 H 30 AU MINISTERE DE L'ECONOMIE.

M. TYLER, DIRECTEUR ADJOINT (DIVISION DE L'EUROPE DE L'EST: GRECE, ISRAEL, ROUMANIE, YOUGOSLAVIE) SE RENDRA A PARIS A CETTE OCCASION. IL PENSE QU'IL POURRAIT ETRE UTILE POUR LUI DE RENCONTRER LE PRESIDENT DE LA REUNION UN PEU AVANT LE DEBUT DE LA SEANCE. LE PLUS SIMPLE SERAIT SANS DOUTE QUE L'HEURE ENVISAGEE POUR CETTE PRISE DE CONTACT SOIT COMMUNIQUEE DIRECTEMENT AU SECRETARIAT DE M. TYLER.

MENTRE DE LOYE

Distribution

MESSAGE MUST END HERE

Drafted by: PM:dp
Department: OED
Date: September 5, 1980

PAUL MENTRE DE LOYE
NAME (TYPE) SIGNATURE

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9-2-76

September 5, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia--Meeting with Managing Director

Mr. Ruding's office phoned today to say that the Yugoslavs can see the Managing Director at 8.55 a.m. on Saturday, September 27. They will notify Mr. Watson of this confirmation.

L.A. Whittome

cc: Mr. Watson
EED

Cc: EED

Office Memorandum

SEP 8 1980

Sept. 8, 80

TO : The Managing Director
The Deputy Managing Director

DATE: September 5, 1980

FROM : L.A. Whittome

SUBJECT : Yugoslavia

Mr. Camdessus has asked that the Fund be represented at a meeting to be held at the French Ministry of Finance on September 15. The meeting is being held to discuss recent Yugoslav requests to the main industrial countries for large annual loans over a period of some three or more years. It will be attended only by the industrial countries most affected, namely, the G-5 plus Austria, Italy, and Switzerland. The Yugoslavs have themselves declined to attend but Camdessus assures me that Minister Kostic has explicitly agreed that it would be helpful if a Fund representative were to be present and to give views on the Yugoslav developments and prospects. I have asked Mr. Tyler to attend this meeting and I have informed Mr. Ruding, who sees no difficulty. Mr. Mentré is already aware.

I think the line that we should take is to give our opinion of developments in 1980, recalling that the Yugoslav program is being supported by a Fund stand-by running into the second and third tranches plus accompanying SFF (SDR 339 million of which SDR 150 million has already been purchased). So far the somewhat scanty evidence available suggests that the program is running approximately on track and that the target for the current account deficit ($2.0 billion to $2.5 billion equivalent to some 4 per cent of GSP) will be met. The main worry concerns the behavior of prices, which have accelerated markedly; consumer prices are now some 30 per cent higher than they were a year ago. We would say that in our opinion the Government are serious in their efforts to secure an improvement in the external position and in inflation and that we believe that they have the power and ability to carry their efforts through. However, we should not hide the fact that in the past there have been a number of areas of continuing weakness--in particular, wages.

We would also tell the group informally that after further talks during the Annual Meeting we expect to be asked to visit Belgrade to arrange for the cancellation of the present stand-by and its replacement by a larger one covering a period of probably two years or possibly three years. The plan tentatively agreed with the Yugoslavs is that we should visit Belgrade to assess their views and forecasts around October and should at that time try to reach a common position on economic policies. We would then withdraw whilst the Federal Government went through the time-consuming process of obtaining the agreement of the Federal Republics. When this had been finally tied up, perhaps around December or January, we would return and reach agreement on what could then be presented as being an entirely Yugoslav program.

Given that those present at the Paris meeting will be of or near the Deputy level we must I think say that as long as we have confidence in the program being presented we would be thinking in terms of a stand-by for the equivalent of 200 per cent (namely SDR 554 million) per annum for 1981 and 1982 and possibly 1983. We should very much stress that a firm but gradual adjustment will need to be supported by sizable capital inflows from other sources.

In sum, as in the case of Turkey we shall seek to present a sympathetic but realistic picture of recent and prospective developments making it plain that we remain prepared to back a sensible adjustment program with sizable Fund resources but emphasizing that other capital inflows will have to be found if a more drastic cut back in domestic demand is to be avoided.

The Managing Director
The Deputy Managing Director

September 5, 1980

L.A. Whittome

Yugoslavia

Mr. Camdessus has asked that the Fund be represented at a meeting to be held at the French Ministry of Finance on September 15. The meeting is being held to discuss recent Yugoslav requests to the main industrial countries for large annual loans over a period of some three or more years. It will be attended only by the industrial countries most affected, namely, the G-5 plus Austria, Italy, and Switzerland. The Yugoslavs have themselves declined to attend but Camdessus assures me that Minister Kostic has explicitly agreed that it would be helpful if a Fund representative were to be present and to give views on the Yugoslav developments n and prospects. I have asked Mr. Tyler to attend this meeting and I have informed Mr. Ruding, who sees no difficulty. Mr. Mentré is already aware.

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In sum, as in the case of Turkey we shall seek to present a sympathetic but realistic picture of recent and prospective developments making it plain that we remain prepared to back a sensible adjustment program with sizable Fund resources but emphasizing that other capital inflows will have to be found if a more drastic cut back in domestic demand is to be avoided.

cc: EED

Office Memorandum

TO : The Deputy Managing Director

DATE: September 4, 1980

FROM : L.A. Whittome

SUBJECT : Yugoslavia--Debt Discussion

A meeting is to be held in Paris on September 15, 1980 at the French Foreign Ministry at which a small number of countries that have been approached for financial support by Yugoslavia will discuss the Yugoslav economic situation and their possible response to the problem. The French have asked if a staff representative could attend and Mr. Kostic, the Yugoslav Minister of Finance, finds no problem with this.

I would propose that you authorize Mr. Tyler to attend the meeting.

cc: EED

AUG 21 1980

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
FEDERAL SECRETARIAT FOR FINANCE
11070 BEOGRAD

Office of the Federal Secretary

August 7, 1980

→ Mr. Whittome

Dear Mr. Managing Director,

It was a great honour and pleasure for the Yugoslav delegation and myself to be given the opportunity to talk with you during our stay in Washington last month.

You were very kind to present to us your opinions on various issues of special interest for the contemporary world. This shall be a great support for us in preparations of our actions for the forthcoming Annual Meetings of the International Bank for Reconstruction and Development and the International Monetary Fund.

With my best personal regards,

Yours faithfully,

Kostić

Eng. Petar Kostić
Member of the Federal Executive Council
and Federal Secretary of Finance

His Excellency
Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A.

CONFIDENTIAL

The Managing Director — July 15, 1980

L.A. Whittome

Visit of Yugoslavs

I have just seen Governor Bogoev who has told me that he definitely intends to make another approach to the Fund in the last quarter of this year. He wished to discuss what special "use" of the SFF might be made without giving rise to any unfavorable comment. I suggested that the special use of the SFF of SDR 250 million would be a fair figure to have in mind. This figure is to be seen against the present quota of SDR 277 million and the assumption that the stand-by to be negotiated will of course cover all four credit tranches plus full associated use of SFF. On this figuring a special use of SFF of SDR 255 million will bring the total use of SFF to about 200 per cent of quota. I have told Governor Bogoev privately that we would most probably be able to increase this figure if the Yugoslav needs made this appropriate. If you have any particular views on this matter you might wish to draw Governor Bogoev aside. I have some suspicion that Minister Kostic is not fully aware of these conversations.

You may also wish to know that the Yugoslavs have agreed with certain OPEC countries for loans of approximately $500 million per year over three years and with certain European countries for loans of $600 million per year for three years. They hope to obtain at least $500 million from the U.S. market and $750 million from the German market. Even if all these loans come through they will be short of their target which is for a minimum of $2.5 billion per year for three years.

cc: Deputy Managing Director
Mr. Watson
EED

Office Memorandum

TO : The Managing Director

DATE: July 15, 1980

FROM : L.A. Whittome

SUBJECT : Visit of Yugoslavs

The Yugoslavs who are calling on you this afternoon tell me that their main purpose for visiting the United States is to arrange for a very large credit from the commercial banks covering at least the period through 1981. They hope that the U.S. Administration will lend them moral support in this operation. Next week they go to Europe and will repeat the same exercise in certain European countries.

As regards Fund matters Minister Kostic may give a ritual general criticism of the Fund's posture as seen by certain LDC countries. I have the strongest impression that if this is said it is for the record only and the Yugoslavs know better than to believe this particular rhetoric.

As regards financial arrangements with the Fund it seems clear that no political decision has yet been taken. The general position is that if the amount to be obtained from the banks is somewhat less than they hope then they may seek a further arrangement with the Fund some time in the last quarter. The Annual Meeting would probably be the first time this would be formally raised. However, I get the impression that in fact matters are more advanced than this and that a further approach to the Fund is a probability rather than a possibility.

They are pleased with the recently agreed stand-by and found that this agreement has strengthened the confidence of the banking community. They are also pleased with the way the many commercial bank enquiries to the staff have been dealt with. They did not expect us to be over-eulogistic but have gained the impression that we have been fair and proper in the replies that have been given.

Lastly it is just possible but I think very unlikely that they will raise the question of a further secondment of Mr. Gudac to the Fund staff. You may remember that this was raised with you in Belgrade. In brief the position is that they hope that Mr. Gudac might be reappointed to the Fund staff at the rank of Division Chief. They have not to date pursued this request actively because they have had difficulty in finding a replacement for him in Belgrade. However, they now can release him in the autumn of this year. From our side the Administration Department's informal contacts have shown that no other Department is at all anxious to accept Mr. Gudac. We may have to do some rethinking on this subject.

cc: Deputy Managing Director
Mr. Watson

The Managing Director July 14, 1980

L.A. Whittome

Visit of Mr. Kostic and Governor Bogoev

I attach a brief covering the visit of Mr. Kostic and Governor Bogoev tomorrow. We are aware that the Yugoslav effort to raise very substantial commercial bank credits has been running into difficulty partly because the banks feel somewhat uncertain about future political developments though they tend to hide these doubts behind the assertion that the present economic policies are insufficiently stringent.

It would be interesting if we could persuade our Yugoslav friends to talk round their experiences in this area.

Attachment

cc: Deputy Managing Director
Mr. Watson

Yugoslavia - Briefing Paper for Visit by Minister Kostic and Governor Bogoev

1. Personalities. The visitors on Tuesday July 15 will be Mr. Kostic, Minister of Finance, and Mr. Bogoev, Governor of the National Bank of Yugoslavia. They will be accompanied by Mr. Ruding and possibly Mr. Stojiljkovic.

2. Position in the Fund. Yugoslavia's present quota is SDR 277 million, to be increased to SDR 415.5 million under the Seventh General Review of Quotas. Yugoslavia has used Fund resources on several occasions, and present Fund holdings amount to 319.0 per cent of quota. Yugoslavia purchased SDR 340.7 million under the oil facilities. In 1979 Yugoslavia drew the reserve tranche (SDR 61 million), and the first credit tranche (SDR 69.25 million) under a stand-by arrangement, and made a first purchase of SDR 138.5 million (50 per cent of quota) under the CFF. In February 1980 Yugoslavia purchased the second 50 per cent of quota (SDR 138.5 million) under the CFF. In June 1980 the Executive Board agreed to a stand-by arrangement for SDR 339.325 million (i.e., the second and third credit tranches and associated use of SFF) for the 18-month period up to December 1981. Yugoslavia has already drawn SDR 150 million under this arrangement, and SDR 50 million will become available from November 15, 1980, provided the performance criteria for September 30, 1980 have been satisfied. In total, therefore, Yugoslavia will purchase SDR 385.5 million in 1980 (SDR 138.5 million under CFF and SDR 200 million of credit tranches and SFF under the stand-by arrangement). An additional SDR 139.325 million will become available in 1981 provided the performance criteria, some of which will be established by a review mission in late 1980, are satisfied; of this SDR 139.325 million, SDR 100 million will be released in the first half of the year (February 1981 and May 1981) and the remaining SDR 39.325 million in August 1981. The Yugoslavs have indicated their interest in increasing their use of Fund resources. One possibility, discussed by Mr. Whittome and Governor Bogoev at the Hamburg meeting of the Interim Committee, is that on the occasion of the mid-term review (tentatively agreed for October 1980), consideration would be given to canceling the existing stand-by arrangement and replacing it with a new two-year arrangement (covering 1981 and 1982) for a larger amount, using the special circumstances provision.

3. Developments in the economy. The mild stabilization effort attempted in 1979 was unsuccessful. The economy continued to grow strongly (GSP growth of 7.1 per cent), and inflation accelerated to 23 per cent (December 1978 to December 1979), while the current account deficit of the balance of payments rose sharply from US$1.3 billion in 1978 to US$3.7 billion in 1979 (equivalent to about 6 per cent of GSP); the deterioration was due to continued excess demand, the impact of crude oil prices, and a number of special factors. The current account deficit was financed partly by US$2 billion of net foreign borrowing. Outstanding debt repayable in foreign currencies rose to US$13.5 billion at the end of 1979, and the debt service ratio (for convertible debt) jumped to 19.5 per cent. In addition, however, there was a major decline in official reserves, to only US$1 billion at the end of 1979.

Against this background, the authorities introduced a stronger stabilization program for 1980. The aims of the program are to restrain the GSP growth rate to 5 per cent or less, to bring inflation down to 17 per cent (in terms of GSP deflator), and to reduce the current account deficit to US$2 billion. The main elements of the policy program are: (1) an intended continuation of the tighter fiscal stance begun in 1979; (2) a monetary program, embodying quarterly targets for money supply (M_1) and domestic credit, which should keep their growth during the year to about 22 per cent, in line with the forecast rate of increase of nominal GSP; (3) an incomes policy that is designed to produce a real decline in wage incomes in 1980 following virtually no increase in 1979; and (4) a gradual depreciation of the exchange rate, in addition to the 30 per cent devaluation announced in June 1980. The arrangement provides for a review mission later in 1980 to negotiate a program for 1981.

Although the staff was initially worried about some aspects of the program, in particular the money and credit ceilings, it was eventually decided to accept the Yugoslav program. In fact, the financial program for the stand-by arrangement is slightly easier than the Yugoslav's own official program, as it incorporates a current account target of US$2.5 billion rather than the official target of US$2 billion, as we suspect that the latter is not attainable in view of the oil price increase. The program was well received in the Executive Board, especially because it did not appear to be a Fund-imposed program. The Chairman's summing up of the Board discussion is attached (Attachment A).

It is too early to tell whether the existing program will achieve its objectives. Inflation continued at a higher rate than planned in the first five months, with consumer prices in May about 26 per cent above a year earlier. Despite an excellent export performance, the overall balance of payments position has apparently worsened; the official reserves fell further to the very low figure of US$646 million at the end of May. We do not know much about policy performance. The credit ceilings for end-March 1980 were slightly exceeded. Although the authorities indicated to us that they would tighten policy to correct for this, there have been press reports of a reduction in reserve requirements in order to ease the liquidity position of the banks. Although it is premature to forecast whether Yugoslavia will satisfy the end-September performance criteria (Attachment B), the reserves test may pose difficulties. In sum, there is a risk that the Yugoslav authorities are not holding to the program, which in any case was probably somewhat weak. If this were true it could have serious effects, given the need for continued reliance on bank financing (see below).

4. Possible subjects for conversation.

a. Do the Yugoslavs think the program is working, and do they envisage additional measures?

b. Will they want to replace the existing arrangement with a new two-year arrangement for 1981-82, for a larger amount? Governor Bogoev has asked for a preliminary private meeting with Mr. Whittome, peresumably in order to discuss this point. Given the known differences of views between the Minister and the Governor on use of the Fund, he may not be prepared to discuss this issue in front of the Minister. As a minimum, they could request the fourth tranche (SDR 69.25 million) and associated SFF (SDR 83.1 million), but presumably they would also want something extra under the special circumstances clause. If so, it is desirable that the program for 1981 should be stronger than the existing one for 1980. Ideally, a Fund mission should visit Yugoslavia in October 1980, as already agreed tentatively with Mr. Bogoev. This would enable the mission to discuss the program for 1981 and make its views known, before the official targets are fixed. Under the Yugoslav system, the annual plan, including a current account target and credit ceilings, is worked out by a complicated system of consultations and agreements involving all levels of government. Once the annual plan is quantified precisely, it is very difficult to change it.

c. The Yugoslavs are making a new approach to the commercial banks. Apparently they approached the banks in early 1980 and were rebuffed: from various sources we learn that their strategy was ill-planned, as they tried for over-favorable terms at a time when the banks were concerned both about the economy and about the political uncertainties. More recently they won the active support of Secretary Miller of the U.S. Treasury, who apparently agreed to help them in re-opening talks with the New York banks, and this support was reinforced by President Carter during his visit to Yugoslavia. The Fund staff (Mr. Tyler and Mr. Mountford) was asked by Mr. Syvrud to brief some U.S. officials about Yugoslavia on April 30, 1980. At that meeting we were told that the Yugoslavs were also seeking official U.S. financial assistance, but that was considered unlikely. At Mr. Miller's request, Mr. David Rockefeller of Chase Manhattan Bank was recently in Belgrade, and it seems that Chase Manhattan Bank has agreed either to act as an advisor to Yugoslavia or to act as lead bank in arranging a new syndicated Eurodollar loan, or both. A Vice President of Chase (Mr. Donald Green) visited the Fund on June 23 and talked to a staff member (Mr. Mountford) before going to Belgrade to arrange the details of Chase's deal with the Yugoslavs. The Yugoslavs have also approached the German authorities asking for help in negotiating with German banks. They have possibly also contacted the British, Dutch, French, and Swiss authorities. Two recent press reports are attached (Attachment C and D). On the basis of an assumed current account deficit of US$2.5 billion, the staff's estimate of Yugoslavia's long-term convertible foreign borrowing need in 1980 is about US$4.0 billion on a gross basis, or US$2.3 billion on a net basis. This would still involve a need for compensatory borrowing by the Yugoslav commercial banks of about US$400 million if the authorities are to meet their target for an increase in the official reserves.

d. Although the American Government is clearly anxious to help Yugoslavia, they are concerned about some questions. Mr. Syvrud has indicated that they are not happy about the fact that Yugoslavia has been buying some gold (about 0.13 million ounces in the first five months of 1980) at a time when the total reserves are low and falling sharply and the country has a stand-by with the Fund.

July 14, 1980

ATTACHMENT A

June 9, 1980 - 80/120

The Chairman's Summing Up at the Conclusion of the
1980 Article IV Consultation with Yugoslavia
Executive Board Meeting 80/86 - June 6, 1980

Executive Directors were in broad agreement with the staff analysis of Yugoslavia's economic situation and prospects. They noted that developments in 1979 had been less satisfactory than the authorities had originally hoped. In particular, the rate of inflation had accelerated and there was a very large increase in the current account deficit of the balance of payments. In part, these developments could be ascribed to exogenous factors such as the increase in oil prices, poor harvests, and the earthquake in Montenegro. It was felt, however, that they were also due to excess domestic demand.

Executive Directors were generally in agreement with the thrust of the stabilization effort introduced in 1980 and which will have to be continued in 1981. The economic program covered the main areas of policy although it was noted that monetary policy would need to play a major role, given the decentralization of fiscal authority. It was noted that interest rates are substantially negative in real terms in Yugoslavia, and the question was raised whether this situation had an adverse effect on the efficiency of investment, on personal savings, and also on the balance of payments. In this context, also, the need to maintain the level of productive investment and to enhance the personal savings ratio was emphasized by a number of Directors. It was generally agreed that the system of decentralization in economic decisionmaking placed heavy responsibility on all sectors and levels of the economy to cooperate fully with the central authorities. It was noted in this regard by some Executive Directors that the decision-making mechanisms at the republican and enterprise levels appeared to be working more effectively.

Some Directors referred to the ambitious target of a decline in the volume of imports in a period when moderate real growth of output was forecast. In this context, Directors welcomed the authorities readiness to adjust their domestic and external policies if it seemed that the external target for a substantial decline in the current account deficit could not be easily met. The new package of measures just announced, including a further depreciation of the exchange rate, was considered as evidence of the determination of the authorities to take the necessary additional action when and if needed to achieve their targets.

Finally, Directors noted with satisfaction that Yugoslavia has terminated the last remaining bilateral payments arrangement with a Fund member.

Table . Yugoslavia: Quantitative Performance Criteria in Proposed Stand-By Arrangement

	1979 December 31 Actual	1980 Proposed Ceilings Under Program 1/ June 30	September 30	December 31
Net domestic assets of the banking system (In billions of dinars)	1,201	1,321	1,381	1,466
Net credit of the National Bank to the Budget of the Federation (In billions of dinars)	68.7	76.4	77.4	77.9
Cumulative change in net convertible foreign assets of the National Bank 2/ (In millions of U.S. dollars)	...	-900	-500	--
Convertible currency debt outstanding 3/ (In billions of U.S. dollars)	12.3	13.6	14.2	14.7

Source: Data supplied by the Yugoslav authorities.

1/ Quantitative performance criteria for 1981 to be determined at the time of the mid-term review.
2/ Net of exceptional borrowing by commercial banks.
3/ Debt outstanding in convertible currency with original maturities of more than one year. Excluding outstanding purchases from the Fund and increases in exceptional borrowings by the commercial banks in 1980. Valued at exchange rates prevailing on December 31, 1979.

ATTACHMENT C

SOURCE Financial Times

FILE #

COMMENTS

DATE: 7/9/80

MAY BE SEEKING UP TO $2BN

Yugoslavia prepares to borrow

BY ANTHONY ROBINSON IN LONDON

REPORTS from Basle that Yugoslavia has approached central bankers for assistance in raising around $2bn this year to back up its economic stabilisation programme come as no surprise to commercial bankers. They have long been aware that Yugoslavia has a borrowing requirement of this size. The immediate "J-curve" effect of last months Dinar devaluation is furthermore expected to increase the pressure on the balance of payments and increase Yugoslavia's already sizeable borrowing needs in the short run.

The National Bank of Yugoslavia in Belgrade yesterday denied that Yugoslavia has made any formal approach to either central or commercial bankers. Leading U.S. and European banks in London however believe that the National Bank considering a large Euro currency loan of up to $500m in which leading U.S., European, Japanese and Arab banks would be invited to participate.

The main function of such a loan, they believe, would be to boost Yugoslavia's reserves which have been run down considerably over the last 18 months as a consequence of the deteriorating trade and balance of payments position. Last year Yugoslavia registered a record $7.3bn trade deficit and a revised balance of payments deficit of $3.7bn.

According to the latest OECD report, Yugoslavia's foreign currency reserves at the end of 1979 stood at $1.3bn and total reserves at just over $2bn. But this underestimates the gold component of the reserves which is officially valued at $42 per ounce. At current market prices the gold component in reserves is estimated to be worth around $2bn, or roughly two months imports. The reserves have also benefitted from some recent borrowing, including the $440m IMF loan which was announced shortly after the June 5 decision to devalue the dinar by 30 per cent.

Borrowing arrangements are believed to be in a fairly early preparatory stage and no final decisions have been taken as to the final shape of the programme. But western bankers believe that a major borrowing by the National Bank would be received more favourably than further conventional borrowing by the Yugoslav commercial banks.

Yugoslavia's total net indebtedness to Western banks, including Japanese and Arab banks, is now estimated to be around $14bn. This has already brought many U.S. and European banks to their country lending limits.

This is reflected in a lack of enthusiasm for further lending and pressure for higher fees and conditions. The latest commercial bank lending was a $107m "club deal" extended to three Yugoslav banks and put together by Citicorp and 8 U.S. and European banks. This was for 7 years at 1¼ per cent over Libor with a substantial management fee.

The size of the Yugoslav debt is not however the only problem. In retrospect many bankers feel that Yugoslav borrowers may have made a major error of judgement earlier this year by concentrating on re-scheduling their existing, and admittedly rather expensive debt, rather than concentrating on creating good conditions for future fresh borrowing.

By insisting on re-scheduling the Yugoslav banks did obtain better terms on $420m of existing debt. The consortium put together by Manufacturers Hanover worked out a package which gave ten years before the final drawdown, a rate of ⅞ per cent above Libor, a 48 month grace period and a front and management fee of ⅞ per cent.

But in the process of hard bargaining over terms the Yugoslav banks reduced the enthusiasm of banks for future lending and as a consequence terms and conditions on future commercial bank borrowing are likely to reflect this feeling.

Under these circumstances using the National Bank as a kind of flagship makes sense. All banks like to keep on good terms with the Central Bank and a large loan to this borrower would clearly also be seen as somewhat of a political gesture of support for post-Tito Yugoslavia.

This is certainly how the Yugoslav authorities would view such an operation. In trade and financial negotiations alike, Yugoslav negotiators always tend to point to Yugoslavia's political and strategic significance and the importance of being able to continue the delicate tightrope act between East and West.

SOURCE Journal of Commerce

FILE #

COMMENTS

DATE: 7/9/80

Yugoslavia Looks to West To Raise Loan

Financial Times

LUXEMBOURG — Yugoslavia has approached governments and central banks in leading Western countries to seek assistance in raising international loans in excess of $2 billion to help finance its deteriorating balance of payments deficit.

Sources close to this month's meeting of central bankers at the Bank for International Settlements said following Tuesday's talks the national authorities in a number of countries have been asked to act as intermediaries with their commercial banks to arrange the package "on the basis of market conditions."

The Basle meetings gave the bankers an opportunity to compare notes on the request which have been made individually to the countries concerned.

Sympathetic Response

It is understood that President Carter made a sympathetic response to a request for assistance in raising $1 billion from the U.S. financial community during his visit to Belgrade last month. A large credit is also being sought from German banks as well as finance from some other European countries.

That Yugoslavia is seeking funds comes as little surprise in the Euromarkets. Its balance of payments was in deficit by some $3.7 billion last year and is likely to show an even worse result in 1980.

However, the country has had some difficulty raising funds on commercial markets this year. This is due not so much to political uncertainty following the death of President Tito but more to the poor performance of the Yugoslav economy and lending limit problems at some major banks. Banks have also been concerned by what they see as the poor management of Yugoslavia's foreign debt.

The request for assistance in negotiating fresh loans will be considered very carefully by those countries which have been asked to participate.

On the one hand there is concern in some quarters over the size of the total package coupled with a feeling that, if a precedent were set, such requests could recurr annually.

Other Side of Coin

On the other hand western countries are anxious to shore up Yugoslavia as a non-aligned country bordering the Comecon block. There is a distinct feeling it should be prevented from slipping too far down the road towards the type of difficulties facing Turkey.

Turkey is now a source of grave concern to some Western officials. Despite its political and strategic importance, they report a growing international reluctance to give financial assistance in amounts required.

Office Memorandum

TO : Mr. Whittome

DATE: July 14, 1980

FROM : A. Mountford AM

SUBJECT : Yugoslavia--Repurchase Obligations

1. You may recall that earlier this year it was arranged that most of a large repurchase obligation (SDR 69.25 million), that had been incurred under the old Article V, Section 7(b), should be postponed to coincide with future installments of repurchases of oil facility purchases.

2. So far in 1980, Yugoslavia has repurchased about SDR 27.3 million (in the period up to June 26, 1980).

3. Repurchases due in the remainder of 1980 will amount to about SDR 26.4 million. All relate to use of the oil facilities. The total repurchased in 1980 will, therefore, be SDR 53.7 million.

4. In 1981, repurchases will total about SDR 58.4 million; again all relate to the oil facilities.

need 2.5 [illegible] cover debt refinancing

VK 100 extent

Swits / Bund } 100 extent

Fr 200 extent

It 200 certain

600

Iraq 100+

K 250

UAE 150

Libya 75 175

525

Chase 500

Ger 250 ??

cc: Mr. Tyler (o/r)

MD need equal emphasis on supply side (energy)

2 [illegible] in [illegible]

5 next 5 yrs 4% not rise

need of energy

2

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I.M.F.

1980 JUL 10 AM 10: 08 419904

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lunch 1 Back 2.30 - 3
11.30

11102 YU NARBAN

T/ 14251 HE BEOGRAD 10.07.1980. H 15

INTERFUND , WASHINGTONDC

FOR MR. L.A. WHITTOME, DIRECTOR EUROPEAN DEPARTMENT.

DURING OUR FORTHCOMING STAY IN WASHINGTON MR.KOSTIC AND MYSELF WILL HAVE AN APPOINTMENT WITH MR. DELAROSIERE, SCHEDULED FOR JULY 16. WOULD LIKE TO HAVE AN EXCHANGE OF VIEWS WITH YOU, IF POSSIBLE, BEFORE MEETING MR. DELAROSIERE.
BEST REGARDS,BOGOEV

means 15th

NARODNBNKA JUGOSLAVIJE

INTERFUND WSH

INTERFUND WSH

Office Memorandum

TO : Mr. L.A. Whittome (upon return)

DATE: July 9, 1980

FROM : A. Pfeifer

SUBJECT : Visit of Yugoslav Minister

Mr. Stojiljkovic, Alternate ED for Yugoslavia in the Bank called to say that Minister Kostic and Governor Bogoev will be in Washington on Tuesday, July 15 and plan to call on Mr. de Larosière, Mr. McNamara, and Secretary Miller.

He said that the Yugoslav Ambassador would contact Mr. de Larosière's office with a view to arranging a visit on the afternoon of that day.

I commented that you would probably be asked to join the Managing Director for this meeting.

cc: Mr. Mountford

June 23, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia and Chase Manhattan Bank

Today I was visited by Mr. Donald Green, a Vice President of Chase Manhattan Bank. He was leaving the next day for Belgrade, where he said that talks between the Yugoslavs and David Rockefeller had "gone much further" than expected. Mr. Rockefeller had been in Yugoslavia in response to a request by Mr. Miller, Secretary of the Treasury. /It will be recalled that Secretary Miller had been asked by the Yugoslavs to "help" them in their next approach to the New York banks./ From what Mr. Green said, I understand that Chase has agreed to act as an "advisor" to Yugoslavia, and possible to manage the next large syndicated Euro-dollar loan to Yugoslavia. In response to Mr. Green's questions, I described (1) the Fund's relations with Yugoslavia (the CFF purchase, and the recently approved stand-by arrangement, without describing the performance criteria); and (2) developments in the economy and policies in 1979 and prospects for 1980. Mr. Green said he will be in touch with us after his visit to Yugoslavia.

AM.

Alexander Mountford

cc: Mr. Whittome
Mr. Pfeifer
Mr. Tyler (o.r.)

F.O.
(and then please file for easy reference!)

Office Memorandum

TO : Mr. Pfeifer

DATE: June 16, 1980

FROM : Geoffrey Tyler

SUBJECT : Yugoslavia--Visit by Officials

It is virtually certain that a Yugoslav delegation, including people from the National Bank and the Ministry of Finance will visit the U.S., principally to visit the banks and encourage lending by them. The delegation will visit Washington and will probably ask to see the Managing Director and yourself.

You will probably remember that Mr. Whittome spoke to Mr. Bogoev, the Governor of the National Bank, in Hamburg and told him that if Yugoslavia wished to cancel the existing stand-by arrangement at the end of 1980 and negotiate a new and larger one, the Fund would be sympathetic. The present stand-by arrangement covers the second and third credit tranches plus SFF, in all SDR 339.25 million over the period until December 31, 1981. By end-1980 SDR 200 million will have been purchased. Obviously any enlarged new stand-by arrangement would cover as a minimum the fourth tranche, which would mean an availability of SDR 291.60 million, presumably over the two years 1981-82. My own view is that we should be willing to add extra SFF under the special circumstances clause.

It is possible that the National Bank may be reluctant to ask for larger amounts of new money, since they had some difficulty earlier in the year in persuading the Ministry of Finance to enter into a higher tranche stand-by arrangement. I think we would be doing Yugoslavia a service by emphasizing to the delegation that there would be no stigma in using the Fund as suggested above, indeed the reverse. It should also be emphasized that we saw no reason on the basis of present and prospective policies for believing that the Fund would not accept what would basically be the Yugoslavs' own program, as was the case in the completed negotiations.

The delegation is likely to include either the Governor or the Deputy Governor (Mr. Marjanovic) plus the Minister of Finance (Mr. Kostic) or his deputy (Mr. Popovic).

cc: Mr. Mountford

F.O.

Office Memorandum

CONFIDENTIAL

TO : Mr. Pfeifer

DATE: June 6, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia

On the week beginning June 16, 1980, I am told by Mr. Stojiljkovic, Yugoslav Alternate in the Bank, Mr. Kostic, Minister of Finance, and Mr. Marjanovic, Deputy Governor of the National Bank, will be visiting the United States--Washington and New York. When they are in Washington, they would like to see you and also to visit the Managing Director. Mr. Stojiljkovic told me confidentially that they also intend to visit New York to see Mr. Rockefeller, of Chase Manhattan, and other leading New York banks. At the request of the Secretary of the Treasury, Mr. Miller, Chase Manhattan is taking a leading role in organizing financial support from the U.S. banks for Yugoslavia.

cc: EED

RECEIVED
I.M.F.

1980 JUN -6 PM 2:37

CABLE
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ORIG: TRE
CC: MD
DMD
MR. RUDING
EUR
LEG
RES
ETRD
SEC

1424 EDT
INTERFUND WSH

11868 YU NARBAN 6.6.1980 NR 12104 H19.30

INTERFUND, WASHINGTONDC
FOR MR. J. DE LAROSIERE, MANAGING DIRECTOR.

PURSUANT TO ARTICLE 4, SECTION 2/A/ OF THE ARTICLES OF AGREEMENT I WOULD LIKE TO INFORM YOU THAT THE GOVERNMENT OF YUGOSLAVIAHAS DECIDED THAT EFFECTIVE JUNE 7, 1980 BUYING AND SELLING RATES FOR DINAR WILL BE CHANGED FROM PRESENT 20,9685 DINARS TO 27,2590 DINARS AND FROM 21,0315 DINARS TO 27,3409 DINARS RESPECTIVELY PER ONE USDOLLAR. WE DO NOT INTEND TO INTRODUCE ANY OTHER CHANGE IN THE EXCHANGE ARRANGEMENT AS NOTIFIED TO THE FUND ON APRIL 19,1978. THIS ACTION REPRESENTS A PART OF A SET OF MEASURES ANNOUNCED BY THE GOVERNMENT TO FIGHT INFLATION AND REVERSE DETERIORATED TRENDS IN THE TRADE ACCOUNT AND THE BALANCE OF PAYMENTS AS A WHOLE.
BEST REGARDS, K.BOGOEV, GOVERNOR
NATIONALBANK OF YUGOSLAVIA

INTERFUND WSH

INTERFUND WSH

YUGOSLAVIA

Economic Indicators

(In per cent)

	Greece		Israel		Yugoslavia	
	1980	1981	1980	1981	~~1980~~	~~1981~~
GNP growth	1.0	3.0	4.0	4.0	5.0	4.0
Current account deficit as per cent of GNP	6.0	4.0	18.0	17.0	3.5	2.0
Overall public sector deficit as per cent of GNP	2.6	2.3	16.0	14.0	--	--
Debt service ratio 1/ 2/	10.0	10.0	28.0	28.0	20.0	20.0
Outstanding external debt as per cent of GNP 1/	20.0	21.0	9.0	9.0	18.0	18.0

1/ Medium- and long-term, excluding Fund.
2/ As percentage of receipts from goods and services.

Office Memorandum

TO : Mr. Whittome

DATE: May 29, 1980

FROM : Geoffrey Tyler

SUBJECT : Yugoslavia and Chase Manhattan

I had a telephone call today from Mr. Roger Robinson, a senior vice-president in charge of Eastern European countries at Chase, and also assistant to the Chairman (Mr. Rockefeller) for Special Projects. His interest arises as a result of Mr. Miller having spoken to Mr. Rockefeller regarding Yugoslavia's relations with U.S. banks. The latter is to visit Yugoslavia in mid-June immediately prior to President Carter's visit.

More immediately, Chase Manhattan is endeavoring to negotiate a loan for US$107 million following the failure of Citibank to carry through a proposed US$300 million loan earlier this year. I presume that Chase Manhattan has been asked to take a special and sympathetic interest in Yugoslavia in the period ahead. It was implicit in the conversation that Chase is willing to take this role.

Mr. Robinson commented that Yugoslavia had been very inefficient in 1979 when bureaucratic delays meant that easy borrowing opportunities were missed, as well as lower spreads. Currently, U.S. banks believe that they have had to take an inordinate share of financial credits given to Yugoslavia in contrast to banks in Germany and Japan, which have provided more export-connected credits.

Mr. Robinson was obviously interested in knowing whether or not Yugoslavia would be likely to come to the Fund and in the amounts that might be potentially available, although he was polite in not asking directly. In the circumstances, I did all I could to let him know how the Fund would be likely to regard Yugoslav policies if they were used as a basis for a request.

INTERNATIONAL MONETARY FUND

L Ag.

I don't know what the "problem" might be or whether it is one for us or the Yugoslavs. We must wait for S.M. to telephone or telex tomorrow.

9/7 5/20

Geoffrey Tyler

RECEIVED
I.M.F.
1980 MAY 20 AM 9:39
CABLE
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0935 EDT
INTERFUND WSH

11868 YU NARBAN 20.5.1980 NR 10960 H14.40

INTERFUND WASHINGTON DC

45 FOR MR. TYLER, ASSISTANT DIRECTOR, EUROPEAN DEPARTMENT.
HAVE HAD FIRST DISCUSSION OF CIFF STATISTICS AND OF OPTIONS AVAILABLE AT THIS STAGE. THERE MAY BE A PROBLEM WITH SYSTEM OF CONVERTING 1979 DATA ON CURRENT EXCHANGE RATE BASIS. WE MET TOMORROW AND I WILL TELEX OR TELEPHONE THEN. AM AT METROPOL HOTEL
MOUNTFORD. ~~[illegible]~~

NARODNABANKA JUGOSLAVIJE BEOGRAD

INTERFUND WSH

TEST NUMBER:

- [x] CHECKS
- [ ] DOES NOT CHECK, IT HAS BEEN SERVICED.

SF
CABLE ROOM

VIA ITT

MAY 20 1980

Office Memorandum

TO : The Managing Director

FROM : L.A. Whittome

SUBJECT : Yugoslavia

DATE: May 20, 1980

You raised a question about the amount of the SFF being used for Yugoslavia.

We fixed this amount bearing in mind the following points:

1. Yugoslav determination to continue to rely on other capital inflows especially from the banks. They also are seeking funds from other Governments, including the United States and Germany. In part this is a reflection of their desire to prove that they are not wholly dependent on the Fund.

2. Yugoslav financing needs as shown by their own projections.

3. No suggestion on their part that they would wish to borrow more and the difficulty of getting the idea of borrowing from the Fund accepted by the Government. It was apparently not easy for the National Bank to obtain the agreement of the Government to borrow into the upper credit tranches. They believe that to go to the fourth credit tranche plus SFF would suggest to the market a balance of payments problem that is more serious than they presently believe it to be and they therefore prefer to rest for the moment at the third tranche.

4. A suspicion on our part (perhaps mainly my part) that the program which, as you will remember, is essentially that already laid down for 1980 may be insufficiently stringent. If that were to prove to be the case we still have the fourth credit tranche plus further use of the SFF available around December/January, by which time the trends will be clearer.

cc: Deputy Managing Director
Mr. Watson
EED

Office Memorandum

MAY 19 1980 OK

TO : Deputy Managing Director

DATE: May 19, 1980

May 19.80

FROM : L.A. Whittome /LAW

SUBJECT : Travel to Yugoslavia

We have run into a complication with regard to the pending CFF drawing for Yugoslavia. The revised balance of payments figures for 1979 which have just come available suggest that/on the calculations done at the beginning of this year there was no shortfall and if we had proceeded with the paper as it is written though fortunately it has not been issued Yugoslavia would incur an immediate obligation to repurchase. We have been in touch with Belgrade and suggested two alternatives. Firstly that a revised CFF be worked through for the year ending March 1980. The preliminary figures available to us suggest that on reasonable forward estimates there will be a shortfall with calculations done on this basis. Alternatively we have suggested a greater use of the regular Fund tranches. You may recall we have recently agreed a drawing up to and including the third credit tranche plus accompanying SFF.

We know that the Yugoslavs are not anxious at this time to go beyond the third tranche and we suspect therefore that they will opt for the revised CFF approach. With this in mind I have asked Mr. Mountford who is on his way to Athens for the Greek consultation to spend one day in Belgrade en route in order to ensure that the ground will be suitably prepared to very shortly visit should they opt to go ahead as we suspect. May I have your approval please for a one day stop in Belgrade for Mr. Mountford.

cc: Managing Director ✓
Mr. Watson

May 19, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia--CFF

Mr. Stojiljkovic rang me on Saturday to say that he had spoken to Deputy Governor Marjanovic regarding the problem with Yugoslavia's CFF purchase early this year. Mr. Marjanovic's reaction was to prefer the negotiation of a new CFF rather than to increase the amount of the stand-by arrangement. He saw problems with increasing Yugoslavia's use of the Fund resources at the present stage to virtually all of the four tranches plus SFF.

This morning, I had a telephone conversation with Mrs. Hofmann in Belgrade. I explained to her that Mr. Mountford would be arriving in Belgrade on Tuesday May 20 and could stay only until the following afternoon. I asked her to have available for him data on (i) total exports, (ii) tourist receipts, and (iii) workers' remittances for the years ending March 31 in 1978 through 1980. She undertook to have these data available. I said that if Yugoslavia wanted to proceed with a new request based on a short-fall year ending March 1980, it would be necessary to have detailed commodity statistics prepared in a similar fashion as in the earlier request. Mr. Mountford will give the exact details in Belgrade. I told Mrs. Hofmann that we would need to discuss the detailed commodity forecasts in the week beginning June 9, 1980 if we were to proceed with a new CFF. Mrs. Hofmann commented that there was a load of work involved. I told her that unfortunately these data were necessary and that the Fund money was not insubstantial.

Geoffrey Tyler

cc: Mr. Whittome

467964

467964

NATIONAL BANK OF YUGOSLAVIA

GOVERNOR

Belgrade, May 12, 1980

Orig: MD
cc: DMD
MR. RUDING
EUR
ADM

Dear Mr. De Larosiere,

Thank you very much for your telex of May 5, 1980 extending to the Government and people of Yugoslavia your condolences on the sad occasion of the death of President Tito.

We all appreciate the sincere words of sympathy you were thoughtful to send us on behalf of the Executive Directors, Management and Staff of the International Monetary Fund at a time when friends mean most.

We shall keep the faithful memory of the man whose competence and human qualities were greatly appreciated all over the world.

Sincerly yours,

Dr. Ksente Bogoev

Mr. J. De Larosiere
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington D.C. 20431
U.S.A.

RECEIVED
INTERNATIONAL
MONETARY FUND
1980 MAY 23 PM 3: 43
COMMUNICATIONS
DIVISION

OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

CHECK SERVICE: Telex ☐ Night Letter ☐ Full Rate ☐ Code ☐

cc: RER

TIME RECEIVED MAY -5 AM 11: 28

ADDRESS

HONORABLE KSENTE BOGOEV
GOVERNOR OF THE INTERNATIONAL MONETARY FUND FOR YUGOSLAVIA
BANQUE NATIONALE DE YOUGOSLAVIE
SIEGE CENTRAL PO BOX 1010 BELGRADE, YUGOSLAVIA

Special Instructions

ON BEHALF OF THE EXECUTIVE DIRECTORS, MANAGEMENT, AND STAFF OF THE INTERNATIONAL MONETARY FUND, I EXTEND TO THE GOVERNMENT AND PEOPLE OF YUGOSLAVIA OUR VERY PROFOUND SORROW AND SYMPATHY UPON THE DEATH OF MARSHAL JOSIP TITO, PRESIDENT OF YUGOSLAVIA. MARSHAL TITO WILL TAKE HIS PLACE IN HISTORY AS ONE OF THE GREAT FIGURES OF HIS TIME. HE DEFENDED HIS COUNTRY AND MAINTAINED ITS INDEPENDENCE. THROUGH HIS SENSE OF JUSTICE AND FREEDOM HE ACHIEVED A REAL POLICY OF NON-ALIGNMENT. HE HAS GIVEN THE WHOLE WORLD AN EXAMPLE OF COURAGE, LEADERSHIP AND HIGH PRINCIPLES. THE INTERNATIONAL MONETARY FUND, WHOSE ANNUAL MEETING HE HONOURED A FEW MONTHS AGO, IS IN MOURNING.

J. de Larosiere
Managing Director
Interfund

Distribution

MD
DMD
MR. RUDING
EUR
ADM

MESSAGE MUST END HERE

Drafted by: ABhagwat/de Larosiere cds
Department: Secretary/MD
Date: May 5, 1980

J. de Larosiere p.p. NAME (TYPE) — SIGNATURE: JWLang

NAME (TYPE) — SIGNATURE

FOR CABLE ROOM USE ONLY

No. of words: 7 minutes   Log: 528338- 8339   Route: RCA   Operator: JJ

SEC-17/OCR
9-2-76

Mr. Whittome

Office Memorandum

TO : Mr. Amuzegar

DATE: April 16, 1980

FROM : A. Mountford

SUBJECT : Paper on Yugoslavia

Mr. Whittome has asked me to prepare some comments on your draft paper on Yugoslavia. I have restricted my suggestions to a few factual points, as presumably you would not expect to receive the staff's views on the evaluate assessments and value judgments that are your own personal views.

The description of Yugoslavia's institutional arrangements and the decentralization of the economic policy decision-making process during the last decade seems to be thorough and complete. In almost all respects, it coincides with the information available to us, except in a few cases where perhaps our data are more up to date. Where such information is not confidential, I have taken the liberty of suggesting a few changes. In addition, I have made some purely editorial suggestions. The comments and suggestions are in red ink and most of them are, I hope, self-explanatory, except in the following instances:

Page 1: The second paragraph describes Yugoslavia's relative position, in terms of standard of living and per capita GNP, etc., by comparison with other European countries. Although the available data, for example the estimated per capita GNP published in the World Bank Atlas, support the general statement in the third sentence of this paragraph, it is clear that the statistical basis for these comparisons is weak, in particular with respect to the Eastern European countries. Not only are the national data of quite varying quality, but the possibility of distortions in the comparisons are increased by the necessarily rather arbitrary choice of an exchange rate, when converting from some of the Eastern European currencies into dollars.

Page 2: A distinction is drawn between "direct" controls and "indirect interventions." As I understand it, "indirect interventions" refers mainly to macroeconomic policies that producd their impact on the economy indirectly; e.g., monetary policy has some direct influence on monetary conditions and thereby indirectly affects economic developments. In terms of this distinction, I am not sure whether or how you might wish to refer to prices and incomes policies.

Also on page 2 in the footnote, there is the first of several references to GDP. One of the special features of Yugoslav national income statistics is that there is no concept or measure of GDP on the standard definition. The reasons for this is an ideological view that various services are "nonproductive." Accordingly, the relevant concept in their statistics is Gross Social Product (GSP). Various estimates have been made which suggest that GDP on the standard definition, if it could be measured in Yugoslavia on the same basis as in a typical Western economy, would be about 15 per cent higher than GDP. For this reason, it would be more exact if the reference in the footnote (and elsewhere in the paper) were to GSP rather than GDP.

Page 13: There are references to the next Five-Year Plan (1981-85). This Plan is still being elaborated, and should be finalized and approved before the end of this year. Therefore, although the statements you make about its main outlines are correct (on the basis of the published preliminary outlines) it might be better at this stage to qualify slightly the last sentence, as suggested.

On pages 14, 15, and 16, I have suggested some changes in the figures for the share of the different levels of Government in total expenditures by the public sector. The reason why it might be preferable to mention expenditures rather than revenues is that part of the revenues accruing to the Federal budget and to the budgets of the republics and provinces are then transferred as grants to the other levels of Government. Our latest estimates (for 1978) which are unfortunately not for publication, show that the Federation accounted for 20 per cent of total public sector expenditures (or 15 per cent excluding grants to other levels of Government) while the Federation, republics and provinces accounted for only 30 per cent (or 25 per cent excluding grants to other levels of Government).

On page 16, the section on monetary policy mentions in passing (in the second line) the "absence of an effective incomes policy." This is a judgment that we would probably share (although not publicly!) with respect to the experience of several recent years, but there are now some indications that incomes policy operated more successfully in 1979. Preliminary data suggest that there was no real increase in wages per employee in the socialized sector in 1979, probably as a result of official guidelines. Opinions may differ as to whether this constitutes an "effective" incomes policy, of course, but a convenient way of avoiding the difficulty would be to use somewhat obscure wording, such as "difficulty of ensuring an effective incomes policy." Alternatively, the reference to incomes policy could conveniently be dropped altogether here, without detracting from the sense of the passage.

On page 17, the footnote suggests that the low level of interest rates is due to the fact that the commercial banks are owned and controlled by their main customers. This is, of course, one reason, but it is not the only one. A convenient way to avoid a complex footnote on the Yugoslav socialist theory of interest rates would be to shorten the footnote, as suggested.

On page 18, the text deals with the number of products whose prices are subject to different types or degrees of control. One aspect of Yugoslav price policy is that the proportion of goods under each of the price control regimes is changed from time to time. Thus the particular percentages mentioned on page 18 were correct for a particular period of time, but probably are not correct for the present. It might be advisable to indicate this or to indicate which period is being used as an example.

On page 33, there is a reference to a 12 per cent unemployment rate. The latest data I have seen suggest that the ratio of registered "jobseekers" to total labor force rose slightly to 7 per cent in 1979. This ratio is the usual indicator of unemployment in Yugoslavia, but it certainly exaggerates the real unemployment rate, as is acknowledged privately by the Yugoslav authorities. This is because the statistics for "jobseekers" include those presently employed who are looking for different jobs, university students seeking part-time employment, and several other categories of workers who are not genuinely unemployed. On balance, it would be difficult to state with confidence that Yugoslavia has the highest unemployment rate in Europe. It is more certain that the country has faced, with some degree of success, a problem of employment-creation, in order to absorb returning emigrants, the shift of workers from agriculture to the industrial and service sectors, and so on.

I hope these few suggestions are helpful. Please call if there are any questions.

cc: Mr. Whittome ✓
Mr. Tyler (o.r.)

Yugoslavia

The Socialist Federal Republic of Yugoslavia, with 256,000 square kilometers of land and some 22 million people, is composed of six Republics and two autonomous Provinces. Each Republic has an administration modeled after the Federal Republic with a constitution, parliament, presidency, executive council (cabinet) and public departments and agencies. Each Republic or Province is the aggregation of many Communes, of which there are 510 throughout the country. These political entities are called Socio-Political Communities. The State and Communist Party organizations are now built along Republic's lines with the power of the Federal Government gradually diminished. Since 1948, Yugoslavia has tried to play an independent, nonaligned, role between East and West; Moscow communism and Western capitalism.[1]

Yugoslavia is relatively underpopulated by European standards. In terms of per capita income, industrialization, and the standard of living, Yugoslavia ranks with Hungary and Romania (or Spain and Turkey). In per capita GNP, however, the country probably ~~trails~~ trails behind ~~all~~ other Eastern European economies except Albania and Romania. There are also marked disparities in the level of economic development among various regions.

The two most salient and unique features of the Yugoslav politico-economic system are its concepts of (a) "workers' self-management," and (b) a "socialist market economy." Under the self-management philosophy, economic enterprises belong to society, but are administered by the workers themselves. Under the socialist market regime, the responsibility for resource allocation, investment, and income distribution is shared by political entities and economic units through voluntary agreements among producers and consumers taking certain cues from the market.

Yugoslavia's self-management socialism is often publicized as a mechanism *sui generis*, i.e., a variant neither of a pure market model nor of a purely

[1] The discussion on Yugoslavia draws on the references mentioned at the end of this chapter, particularly on a recent and thorough study by the World Bank, Yugoslavia: Self-Management Socialism (Baltimore: Johns Hopkins University Press, 1979).

centrally planned economy. In reality, it is an experimental offshoot of both--an imperfect market system--superimposed on a multilateral regime. Under the 1974 Constitution, the Yugoslav system is probably the most pluralistic of all centrally planned economies. Within this system, the role of the state (at the Federal, Republican, or communal levels) is limited to selective interventions. The government's direct controls over economic activity have been concentrated in three basic areas: financing of investment projects in priority sectors; regulation of economic activity in the private sector; and control over the use of foreign exchange. Indirect interventions cover monetary, fiscal, incomes, prices, and trade policies.

The "socialized" sector employs over 5 million people and accounts for some 82 per cent of the "social product."__/ There are also some 800,000 workers temporarily employed abroad. Industry and construction account for about half of the social product. Agriculture, both state and private, provides about 16 per cent; and the rest comes from services. Agriculture, however, still employs about 40 per cent of the active population.

__/ Over 3 per cent of Yugoslavia's national income is set aside annually for the purpose of aiding the less-developed regions of the country.

__/ In the Yugoslav system of national income accounting, "non-productive" services (i.e., services rendered to individuals like domestic help) are excluded from ~~GDP~~ GSP. Yugoslav real GDP is ~~thus~~ estimated to be some 15 per cent higher than the "gross social product."

I. Government's Direct Role in the Economy

Yugoslavia's self-styled road to Communism emphasizes the supremacy of "social self-management" over state ownership and operation._/ The basis of Yugoslavia's social system is social ownership of the means of production, and the right of all workers to work with the means in social ownership. Neither the individuals, nor groups, nor even the state, own the basic means. Ownership resides in the association of producers' or workers' organizations. Social aggregation of men and machines is achieved through autonomous enterprises managed by workers themselves. This shift from administrative socialism (i.e., centralized planning and state management) to market socialism, (i.e., enterprise autonomy and social bargain), has made the structure of Yugoslavia's direct role in the economy substantially different from ~~the rest of the~~ that of other centrally planned economies ~~CPEs~~.

Social ownership and enterprise

The contemporary Yugoslav model is the result of some thirty years of Yugoslav experimentation (and four different Constitutions) dealing with the management of political, social and economic affairs. In the immediate postwar period up to 1948, Yugoslavia's "administrative socialism," had all the principal features of a Soviet-type command economy. According to the 1946 Constitution, virtually all vital industries, all means of transport and communications, banking, finance, domestic distribution and foreign trade were nationalized and managed directly by the State. After the traumatic break with Moscow in 1948, and expulsion from the Cominform, there was a significant turnaround. Comprehensive state ownership and controls were denounced as "state capitalism" and against the true enterests of the working man. The 1950 "Law on the Management of Government Enterprises and Economic Association by Workers' Collectives" and the 1953 Constitution introduced the two new concepts of social ownership of the means of production, and that of workers' participation in the management of their production unit.

_/ The semantic replacement of the concept of state ownership with that of social controls was intended to show that, in the transition of bourgeois capitalism to full communism, there is no need for an interim state ownership. Workers can immediately take over social ownership and management without waiting for the State to "wither away."

The basic Law on the Management of Government Enterprises was based on the simple concept that all means of production belong to the society (i.e., the people as a whole), but are entrusted for management to workers. The Law thus placed the operation and management of all factories, mines, farms and other state economic enterprises having more than a certain number of employees in the hands of workers themselves._/ The difficulties and failures associated with the implementation of the Law, and particularly the ill-defined responsibilities of the government and the collectives, gave rise to a prolonged national debate ~~and~~ which culminated in the "liberal" Constitution of 1963.

The "economic reform" that followed during 1964-65 ushered in four new changes: (a) a large part of the Federal Government's responsibilities was transferred to the Republics; (b) the Yugoslav economy was further exposed to world market competition through curtailment of price susidies, more import liberalization and the unification of a complex system of multiple exchange rates; (c) the task of resource allocation was largely taken away from the state and given to economic enterprises and financial banks; and (d) enterprise autonomy was expanded to include price formation and the distribution of enterprise income (into wages or reinvestments). The objectives of the 1965 "reform" which was subsequently dubbed "market socialism" were to give greater autonomy to the Republics, to enhance enterprise efficiency and quality of output, and to improve national income distribution.

As a result of these reforms, Federal responsibilities in the management of the economy were further reduced to economic relations with foreign countries, regulation of special funds for financing developments in less-developed regions, coordination of monetary, fiscal, and foreign exchange policies; price controls over certain selected goods and services; and the adoption of social five-year plans. Almost all of these fell into the realm of indirect intervention.

_/ Workers' self-management in Yugoslavia should be distinguished from "workers' participation" and the so-called "co-management" practiced in some Western European countries after World War II. The difference, simply stated, is that in the European models, workers share management responsibilities with managers and stockholders. In the Yugoslav case, they are the sole decision-makers.

The post-1965 developments of the Yugoslav economy--a too liberal interpretation of the concept of enterprise autonomy, lack of policy coordination, inability of the state to regulate aggregate demand and supply--were the sources of ensuing inflation, unemployment and excess industrial capacity. A series of constitutional amendments in 1967, 1968, and 1971 finally culminated in the new Constitution of 1974, which promises to extend the self-management principle to the macroeconomic areas of foreign exchange allotments, allocation of savings, distribution of income, prices, wages and employment.

Self-Management

Economic "self-management" in Yugoslavia is widely publicized as a "democratic" system under which (a) decision-making power is exclusively assigned to those directly affected by the decisions; and (b) individual decision-makers exercise their mandate directly without sharing power with others. The proper functioning of self-management, in turn is based on three basic presumptions: (i) the decision-makers are homogeneous in objectives, interests and outlook; (ii) the organization of decision-making is small enough to allow members personal contacts and direct dialogues on matters of common interest; and (iii) decisions made at numerous small units are coordinated with each other (and with the national interest) through further delegations to ascending layers of assemblies all the way up to the Federation. Workers are to exercise their socioeconomic and self-management rights through (i) decision-making at meetings; (ii) delegates in workers' councils; and (iii) delegates in the assemblies of the "communities of interest" and in the sociopolitical communities.__/

The workers' organization on a self-management basis is the main form of decision-making in all sphere of socioeconomic activity. It is the right and duty

__/ The "delegates" differ basically from "representatives" in Western "parliamentary" democracies in that they are obliged to solicit and present the views of their constituents exactly as they are under the sanction of recall.

of the workers to belong to a basic organization. It is through such an association that workers exercise their self-management rights. Workers engaged in economic activities belong to a basic organization. Employees performing administrative or technical tasks or auxiliary services and those working for the state organs belong to "work communities." Those engaged in social activities (e.g. education, culture, public health, social welfare) belong to self-managed "communities of interest." The self-management principle is thus carried out through a number of special organizations and legal instruments.

At the bottom of the organizational hierarchy is the production unit called the Basic Organization of Associated Labor (BOAL)--a technical unit that produces a marketable good or renders a service. A BOAL may have as small as a few dozen or as large as several hundred workers. Under the 1974 Constitution, the BOAL is the major decision-making entity. Every BOAL has the right to join or to leave an existing enterprise or to form a new one. The BOAL's net income is separately calculated and can be distributed between wages, accumulation, and reinvestment at BOAL's discretion, but within its own obligations under Social Compacts and Self-Management Agreements (the legal instruments discussed below).

A group of BOALs form a "Working Organization"--a Yugoslav name for the enterprise. An enterprise is a voluntary and ad hoc association of organized workers who are linked by common working interest or by a unified process. (An integrated cotton textile mill, for instance, may have technical BOAL's such as spinning, weaving, finishing, etc., all the way up to retail outlets). Enterprises may be established by organizations of associated labor, self-managing communities of interest, local communes, sociopolitical communities, or other legal persons.

The bulk of Yugoslav industrial enterprises is socially owned and operated. Any enterprise that has five employees or more is considered a social enterprise and is run by those who work in it.__/

__/ Deviations from the rules are sometimes overlooked, and occasionally tolerated. Some businesses employ more than the maximum five without having their assets turned into "social property," or submitting their policies to the Workers' Council.

The Yugoslav industrial enterprise is, within its variegated commitments, free to pursue its business and expansion policies. It plans and implements production, trade or services in line with its financial resources and possibilities. It decides for itself the volume and range of its products, and its own ~~prices~~ price policy. It chooses its method of production, its supplies of material and equipment, and its customers at home and abroad. Thus, while workers and managers do not legally own the enterprise's assets, they have effective control over them.__/

The income earned (i.e., what is left of receipts after covering business costs) is the yardstick of economic justification and success. The distribution of this income is decided by the workers. The net income (i.e., what is left after all financial obligations such as taxes and other dues have been met) is allocated by the workers, according to the self-management agreement to (i) gross wages and salaries; (ii) funds for the satisfaction of common needs (cafeterias, houses, ~~recreations~~ sports facilities, etc.); and (iii) reserves for expansion and improvement of plant facilities. Contributions for common services (education, health protection and social security) are made out of gross personal incomes in accordance with the "exchange of labor" agreements with the relevant "communities of interest."__/

The modus operandi of self-management is multilayered. Every BOAL or enterprise has three main organs: the Workers' Council, the Business Executive, and the Executive organ. The Workers' Council consists of delegates elected by members of any BOAL or enterprise having more than 30 workers. There are more than 10,000 industrial councils, ranging from 15 to 120 members, representing 20 times as many workers. The Council is the highest management organ of the enterprise; all basic policies (e.g. the approval of the enterprise's plan and its financial budget, distribution of income, election and dismissal of the Business Executive of other organs) are formulated by the Council. The Business Executive is appointed from among a list of candidates by a special commission composed of the representatives of the Workers' Council, the Trade Unions and the professional associations selected by the local Commune. He carries out the Council's decisions and directions.

The Business Executive has a dual responsibility to the enterprise and to the society at large. On the one hand, he is in charge of the day-to-day business according to its plan, enterprise policies, and commitments under appropriate self-management agreements and social compacts. On the other hand, if the

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__/ This is often likened to the old English system of ~~free~~ lease-holding where land itself belonged to the Crown, but tenants had the rights to their leases on the land. The emphasis on self-management is also partly expected to broaden the scope for non-material incentives, and greater social consciousness in economic decisions.

__/ For details see Facts About Yugoslavia (Belgrade: General Secretariat for Information, 1979).

Council or the Executive Organ tries to take actions contrary to those commitments, he has the duty to inform the respective socio-political unit. The Executive Organ can be set up by the Council for specific tasks within its jurisdiction. All business decisions regarding work assignments, product design, output planning, wage rates, pricing, sales promotion, and profit distribution are to be made jointly by the Workers' Council, the Business Executive and the Executive Organ in accordance with all relevant directives including the national economic plan. In reality, however, only a very small percentage of decisions are taken in a "self-management" way. Managers, professional staff, and administrators usually take an upper hand over inexperienced, manual workers.

Self-management is legally and administratively based on a number of unique instrumentalities such as agreements and compacts. Social Compacts are concluded among Socio-Political Communities, Economic Chambers, Trade Unions and Associations of economic enterprises. They stipulate the rights and responsibilities of each party in the execution of broad national policies. Issues regulated by the Social Compacts include basic priorities of the Social (national) Plan, principles regarding prices, employment and foreign trade, and distribution of income between consumption and investment. Social Compacts set out the agreements on principles.

Self-Management Agreements specify rights and obligations of each economic organization (e.g. BOALs, enterprises, and banks) in accordance with the broad principles. The matters contained in these agreements include (i) the legal status of BOALs, enterprises, and banks; (ii) the distribution of joint incomes earned by the contracting parties; (iii) transfer prices among parties; (iv) criteria for the distribution of BOAL income into current expenditures and reinvestment; and (v) placement of investible funds generated within BOALs or enterprises.

Communities of Interest

Among other institutions unique to Yugoslavia, the Communities of Interest deserve special attention. _/ CIs are organizations formed by producers and users of certain goods or services. The production and distribution of public goods -- goods which the market price cannot be relied upon to match supply and demand -- are by law in the hands of CIs. Thus, education, public health, utilities, transportation and communications, and foreign trade are to be organized ~~provided~~ by CIs. Outside the social services, such communities can be voluntarily formed by enterprises and consumer groups through self-management agreements. As it is aptly described, CIs substitute both the market role as a mechanism for computation and coordination, and the government's role as a regulator of economic activities. The CIs, both at the Federal and Provincial levels, also serve as a vehicle for a two-way flow of consultation--upward from enterprises to the Federation, and downward from the center to the operating units--until a consensus is reached between enterprise plans and natural objectives.

Agricultural enterprise

As in industry, the structure of agricultural enterprise has changed several times since the war. First, there was confiscation of land from big landlords, churches, and other private owners who did not farm themselves; limited land holdings for peasant-cultivators; compulsory peasant cooperatives; and forced delivery of farm products to the state. Thus, there was intensified

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_/ Mention ought to be made also of (a) the Composite Organization which is a legal entity comprising several enterprises in vertical or horizontal chains of production distribution; (b) Reproduction Entity which consists of a group of enterprises linked together vertically by forward or backward delivery relationships (e.g. from coal mining to electricity consumption); and (c) the Industry Association to which all enterprises in an industry must belong at the Republican and Federal levels. Associations, in turn, from the Economic Chambers.

"voluntary" collectivization of free lands during 1950-53 through state assistance to the collectives, on the one hand, and high taxes and other discriminations against free holders, on the other. Finally, there came the replacement of agricultural collectives by voluntary, self-managed agricultural cooperatives whereby agriculture is privately run on independent farms with limited acreage. Private farmers may voluntarily join in producers' or consumers' farm cooperatives for the purpose of benefits from cheaper mass purchasing of machinery and equipment as well as more productive sales and marketing efforts. The 5,000 or so general cooperatives own their own land and are managed by private farmer-participants. They combine both buying and selling functions; they are also assisted by the state materially and technically; they have access to low-cost credit of the State Agricultural Bank; subsidized farm supplies; and research facilities. The general cooperatives do a good deal of farming in addition to their trading activities.

Some 16 per cent of the farm land and about 7 per cent of the active population ar now part of "socialized agriculture" -- mostly in the hands of state experimental farms, and collective farms established on confiscated land. State farms are large-scale, self-managed, agro-industrial enterprises. Collective farms lease their land from the state, and operate pretty much like the Russian variety. Yugoslavia still hopes to reduce the peasant's resistance to collectivized farming through such aggregative institutions as the Cooperatives Union and the Agricultural Chamber.

State Planning

Yugoslavia's postwar social (national) planning has changed four times with each of the four new Constitutions (1946, 1953, 1963 and 1974). By 1980, there had been six medium-term plans representing four basic planning philosophies.

After a short-lived and unsuccessful experiment with the Soviet model between 1947-1952, Yugoslavia abandoned <u>central planning</u>. As state management was replaced by self-management so was centralized planning substituted by planning in terms of global balances; or basic proportions between aggregate consumption and investment, between shares of investment in different sectors, and between exports and imports. The content of the social plan (during 1956-1961) was reduced to coordination and guidance in such broad macroeconomic variables as the rate of aggregate investment, the distribution of investible funds, and aggregate consumption. On the basis of these rates, the Federal Planning Institute made forecasts of sectoral growth rates. Enterprises, in turn, would prepare their own operative plans based on those projections.

Encouraged by the success of the Second Plan, and the conceived compatibility of planning and the market mechanism, further liberalization in the planning process was widely advocated. Thus between 1961 and 1975 Yugoslav planning became largely indicative in nature. The main tasks of the plan -- a medium-term prospective -- were to provide a forecast and a basis for decision-making by profit-maximizing enterprises, and a set of objectives for the government to follow. The prospectives dealt mostly with politico-economic policies (regional, national and international), and socio-economic instruments (taxes, interest rate, etc.) necessary to implement them. Annual Social Plans were more detailed, dealing with the rate of private and public consumption, gross investment, foreign trade, industrial and agricultural outputs, employment and productivity. With minor exceptions, investment decisions were influenced by market criteria, and backed by self-managed all-purpose banks.

Each annual plan was accompanied by a financial plan (i.e., a comprehensive social budget) which dealt with wage and price guidelines, credit distribution, and capital use among industrial enterprises. The Secretariat (Ministry) for Finance inspected enterprise accounts and ensured the fulfillment of contract obligations among enterprises. Corporative economic chambers had the task of coordinating output of different enterprises in each branch of industry. Local communes and local YLCs exerted political and persuasive pressures on Workers' Councils and enterprise managers to follow the plan's directions.

The experiment with this type of planning, however, was not very successful as the economy went through a series of internal and external imbalances and gyrations. There was also much disenchantment with too much dependence on impersonal market forces. It was generally conceded that investment decisions by enterprises were not properly coordinated, and that investable funds were not always put to optimum use. The market was also blamed for (i) growing income inequality among Republics and among individuals in each Republic; (ii) concentration of economic power in the hands of banks, managerial élite and various strategic enterprises (e.g., in foreign trade); and (iii) the Government's inability to prevent duplications, inefficiencies, and misuse of precious investment resources.

Under the new 1974 Constitution, the self-management principle was extended to planning. In a radical shift from the past, the planning exercise was divided among all decision makers (instead of the Planning Institute), and the plan's directives became legally binding (instead of mere indications). According to the new Law on Planning, 1976, the planning process is to be carried out simultaneously by all organizations that are affected, and at all levels. The process is a continual one with the progress and failures of each annual plan serving as the basis for ~~the~~ revision of ~~a new~~ the five-year plan; and each medium five-year plan is part of a longer-term plan describing long-term objectives.

In the 1976-1980 Plan, enterprises were expected to (a) prepare their individual plans based on a common methodology, common assumptions, and a common plan period; (b) to coordinate their programs horizontally at the level of the Republics;

and (c) to reconcile these programs vertically with other interdependent firms at regional levels._/ The operational part of the Plan consists of major investment projects, physical output, and financing agreed upon in the legally binding self-management agreements and social compacts. Republican and Federal Planning Institutes are to aggregate and reconcile individual plans, and to come up with an overall Plan to be submitted to the Federal Assembly for final approval and adoption. Enterprises are committed to planned output, wage and price targets under the Self-Management Agreements. The implementation of the plan is supervised by local overview committees composed of enterprise representatives and those of consumer groups._/ The Federal Planning Institute handles deadlocks in the process of planning and implementation. To implement specific projects outlined in the five-year plans, each Republic or provincial authority conclude Social Compacts with various enterprises.

~~The~~ One of the main tasks of Yugoslav planning--which is not now altogether strictly binding on all enterprises--is to reduce undue dependence on imports of raw materials and equipment, and to eliminate major growth impediments in energy, agriculture and transportation. The 1976-80 Plan is thus aimed at the development of (a) energy, especially through hydroelectric potential and coal; (b) agro-business, especially food processing, toward self-sufficency in basic farm outputs; (c) mining; and (d) machine tools and metal works. The annual average target growth rate is 7 per cent. The 1981-85 Plan, which is still at the preliminary stages of preparation, is expected ~~to~~ provide for ~~with~~ a slightly lower target for growth, ~~has its~~ and to place the main priorities on raw materials extraction, energy, food and transportation.

_/ The final draft of the Plan had to be harmonized with some 55,000 individual plans for enterprises, banks, local communes and republics.

_/ In order to guarantee the desired pattern of investment, the Plan envisages a number of policy measures such as the use of public loans and bond issues to obtain funds for prioretical projects; preferential treatment of capital goods imports; special credit terms; tax breaks; and possible obligations imposed on enterprises to invest in certain specific projects.

II. Indirect Interventions

Yugoslavia's "people democracy," while markedly different from the Soviet and Chinese varieties, is still based on "democratic centralism" and ~~the~~ one-party rule. The League of Yugoslav Communists and its adjunct organization, the Socialist Alliance, are, in the official view, the only organizations that give citizens an opportunity to participate in political life, in the discussion of socio-political issues, and in the presentation of proposals._/

Within the framework of this "one-party democracy," Yugoslavia is the only country among the CPEs with the broadest use of Western-type interventionist policies to direct and manage the economy. The extent and scope of these public levers, in turn, have increased throughout the years since 1950, with the spread of decentralization measures. Some of these social policies will be briefly discussed in the following sections.

Fiscal Policy

Public finance in Yugoslavia is divided between the Federal Government, the governments of the Republics and other social entities. The Federal Government is responsible for defense, ~~social security~~, subsidies to lesser-developed regions and general administration. Republics and local communes take care of all other expenditures. Revenues are also correspondingly divided. The tax system, contributing 90 per cent of budgetary revenues, essentially consists of three categories: (1) income taxes (including taxes on incomes of enterprises, personal incomes of social sector workers, incomes from private sector activities, and incomes from property ownership); (2) turnover or excise taxes on goods and services; and (3) customs duties. Public revenues are shared by social entities. The basic source of Federal revenues, since 1978, is contribution from Republics

_/ Democratic centralism refers to a process by which people engage in free deliberations and discussions of issues, but once decisions are made, they have to abide by them.

and Provinces originating from excise or turnover tax receipts (50 per cent)._/ All other taxes are imposed and collected at the Republic/Provincial and communal levels.

Since 1974, there has been a distinct trend toward decentralization of fiscal power, and the creation of a number of special purpose public sector institutions (e.g., the Social Security Fund, fund for public services by regional and local Communities of Interest; special projects funds, etc.). Almost all essential social services--public utilities, road maintenance, housing, health, education, disability insurance, child care, etc.--are now provided by the Communities of Interest at the local and regional levels. The intent of the law is to put the burden of financing these services directly on their beneficiaries. The extent of these services is thus determined by the BOALs which form the membership of the CIs. ~~Three fifths~~ About three quarters of all public ~~revenues~~ expenditures are out of the reach of the Federal and Republic governments, and in the hands of the CIs, social security funds and special funds.

The main objectives of fiscal policy in recent years have been to (1) maintain the rate of growth of public revenues below that of nominal G~~D~~SP in order to check the rise in social services expenditures; (2) minimize resources taken from the "productive sector" and spent on nonproductive activities; and (3) reduce the federal budget deficit. The structure of the tax system, however, has left little room for maneuver by fiscal authorities in dealing with cyclical fluctuations.

The new Law on the Financing of the Federation, 1977, seeks to regulate revenue sharing between the Federal Government and the Republics in such a way as to give the former greater autonomy and certainty in revenue collection. At the same time, the responsibility for promoting foreign

_/ Prior to 1978, customs duties were exclusively a federal tax. Since then, they are collected by the Self-Managed Community of Interest for Economic Relations with the Rest of the World--to be used for drawbacks on exports.

trade (e.g., tax rebates to exporters) and domestic subsidies (mostly for guaranteed food prices) was taken away from the Federal Government in 1978 and given to two special bodies. The size of the Federal budget and the amount of the deficit financing in the future would therefore be substantially reduced.

On the whole, fiscal policy, as exercised by the Federal Government, has not been an effective instrument in demand management because (1) the Federal budget's share of total public revenues and expenditures has been on the decline, and lately ~~only about one~~ somewhat less than one-fourth of total; (2) Federal revenues based on the Republics' contribution could not be geared to the levels of domestic economic activities; (3) budgetary expenditures have proved to be fairly inflexible; and (4) the multiplicity of public institutions--running virtually into the thousands--has not been conducive to a centrally directed anti-cyclical policy.

Monetary Policy

Due to the particular weaknesses of fiscal policy for demand management in the Yugoslav setting (and the ~~absence of~~ difficulty of ensuring an effective incomes policy) the responsibility for anti-cyclical interventions rests basically with monetary policy. The policy stance is ordinarily defined in the Annual Economic Policy Resolutions adopted by the Federal Assembly. The general scope for monetary policy usually takes into account the main objectives of the Plan. The Annual Resolution defines the targets for the rate of growth of money supply (M_1); reserve money creation; selective credit policy; and the debt of the Federal Government.[1] Open market operations are still not very significant.

The implementation of Yugoslavia's monetary policy is the responsibility of the Yugoslav National Bank, and the National Banks of the Republics and Autonomous Provinces. The governors of these banks constitute the Board of Governors of the country's National Bank. The latter's main task is to regulate

[1] For details of these measures, see Yugoslavia (Paris; OECD, 1979).

the money supply, which is geared, as a rule, to the planned rise in G~~D~~SP. The National Bank finances the Federal budget deficits, and may guarantee foreign loans.

The country's banking system under the 1976 banking law is made up of (a) internal banks which are subsidiaries of public enterprises, and whose services are not available to the general public; (b) basic banks which are full-fledged commercial banks owned by internal banks, or other economic interests; and (c) associated banks which are formed by basic banks and carry out special banking activities (e.g., foreign exchange operations) assigned to them by basic banks. All banks are required to prepare annual and five-year plans and to integrate them with those of their members and ultimately with the overall Social Plan.

The annual scope for monetary policy, in recent years, has included the sustenance of the desired increase in the general level of economic activities; the control of inflation; a balance between aggregate supply and demand; and balance of payments support. The money supply target is commonly regulated by the manipulation of the monetary base. The Law on National Bank Operation enumerates the instruments of monetary policy and the regulation of the reserve money base as: (1) compulsory reserves of commercial banks and other financial organizations held with the National Bank of Yugoslavia (YNB)--the maximum rate (25 per cent) fixed by law, and the actual rates by the Federal Executive Council and YNB; (2) extension of short-term documented credits to commercial banks, e.g., discounting commercial papers; (3) purchase of short-term securities, e.g., treasury bills; (4) issue and cancellation of national bank notes; (5) rediscount rate; and (6) restrictions on the volume of bank credit.

In general, the authorities' aim in determining and maintaining the money supply (narrowly defined, M_1) at a projected level has gone hand-in-hand with a desire to keep interest rates at a fairly low level in order to promote investment~~, but not too low to discourage savings~~. In the absence of an internal

The fact that

~~Since the~~ commercial banks are owned and controlled by their enterprise customers, ~~there has developed a~~ tendency to~~ward~~ keep~~ing~~ interest rates low~~, and to embark on an expansionary credit policy~~.

is one reason for the

capital market, and hamstrung by rigid controls on foreign borrowings by individual enterprises, the Yugoslav banks are the main source of credit finance. At the same time, the strict limitations on interest rates charged by the banks in the face of persistent high inflation have resulted in credits being normally rationed. Low interest rates, in turn, have tended to reduce the supply of individual savings and encourage excessive investment.

Price and Incomes Policies

Yugoslavia's price policy has passed through various phases of regimentation and liberalization, but has never been totally controlled, or completely free. There has always been some state intervention. As a result of many policy changes in the last three decades, the process of price formulation has become exceedingly complex.

Prices are generally determined at the producers' level (wholesale); trade margins are allowed for retailing. The prices of about 80 per cent of total products are under federal jurisdiction and handled by the Federal Bureau for Prices. Within this jurisdiction, there are basically four principles or processes for price formulation. First, the prices of about one third of products are not under direct control, and there is a wide margin of discretion, based on market forces, for fixing these prices. Second, some 10 per cent of products (mainly oil derivatives and consumer items) are, by contrast, under direct control of the state and can be changed only by administrative decisions. Third, the price of some 22 per cent of products is based upon self-management agreements among producers at different production levels; they include raw materials and ferrous and nonferrous metals whose prices are known in world markets. And, finally, about 17 per cent of products (mainly intermediate materials, chemicals and equipment) are priced under agreements between producers and/or consumers, but must also be approved by the Federal Bureau for Prices.

Price formulation takes place principally through two kinds of agreements. First, there are agreements among Socio-Political Communities which define broad lines of policy to be followed in a given year, including price rises that would be tolerated in that year.[1] Second, within the framework of these "political" accords, there are agreements among producers and/or consumers on prices and price changes for particular groups of goods. All prices--even liberalized ones--must fall within the general price policy guidelines. Price categories can be changed by the state if conditions so warrant, or if self-management agreements do not comply with administratively-established criteria. There can be a general freeze on all prices (as in 1971) or a selective freeze for some prices.

Incomes policy relates to the principles of the distribution of enterprise income between gross personal incomes (i.e., wages and salaries) and the accumulation of investment reserves. Workers in the basic organizations receive their incomes from (i) sales of goods and services by their unit; (ii) shares from joint activities with other organizations; and (iii) free "exchange of labor" (i.e., fringe benefits in the form of education, health care, etc.). Personal incomes are based on the twin principles of (a) individual contribution to the creation of the organization's revenues; and (b) "solidarity" (i.e., a cross between equity and efficiency). Every worker, however, is guaranteed a minimum personal income enabling him to enjoy a degree of national and social status. Since 1965, the workers' control over the enterprise's income distribution has been on the rise. For this reason, there has been a continuous tendency to increase nominal wages at the expense of savings. Enterprise expansion has, thus, had to be financed through public budget or bank borrowing.

Foreign trade and exchange policies

Yugoslavia's foreign trade and exchange policies are dictated by two statutes enacted in 1977--consolidating several previous edicts, and bringing them in line with the 1974 Constitution.

The Federal Executive Council, through its mandate from the Federal Assembly, establishes the day-to-day trade and exchange policies. The Federal Secretariat for Foreign Trade prescribes rules and regulations governing foreign trade and issues import and export licenses when required. It also has the responsibility of securing balanced trade under bilateral arrangements with other countries. Foreign trade is subject to a plethora of regulations necessitated by the Five-Year Development Plan, and Yugoslavia's persistent and substantial trade deficits.

Imports are classified according to the manner in which foreign exchange is made available; liberalized imports; goods subject to foreign exchange quotas; commodities subject to physical limitations; and items subject to ad hoc licensing. Liberalized imports, for which foreign exchange is readily available, include mainly raw materials and spare parts; they constitute more than half of all imports. Limited items, accounting for roughly one fifth of imports, include essentially

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[1] The Annual Economic Policy Resolution for 1978, for example, allowed an inflation rate of 12-13 per cent.

agricultural and mineral products, machine tools, and equipment; allocation among importers is made by the Chamber of Economy. Goods requiring ad hoc licenses include motor vehicles, aircraft, oil, pharmaceuticals and firearms; they cover less than 10 per cent of imports.

Commercial imports may be brought in only by → registered economic organizations (e.g., major industrial producers who are so registered, or other trading units). Individuals who hold foreign exchange accounts with Yugoslav banks may use these funds to import goods for their own use. Self-employed Yugoslav nationals also are allowed to import small capital goods for their own operation up to a certain amount. There is no exchange allowance for tourist travel abroad. Payments for services and invisibles (e.g., royalties) are allowed. Tariff rates are stipulated in the Customs Tariff Law of 1977 on an ad valorem basis. In addition to customs levies, imports are subject to a variety of taxes and surcharges earmarked for specific purposes. The Federal Executive Council is authorized to raise basic duty rates up to 50 per cent when needed to protect domestic industries.

In principle, exports are unrestricted except for some raw materials in short supply on the domestic market. Exports to bilateral trading partners are subject to conditions specified in the bilateral agreements. Proceeds from exports must be repatriated within a specified period, but they need not be surrendered. In fact, foreign exchange earned through exports theoretically belong to the exporting entity. It can normally be kept in a foreign exchange account to be used later; it can be used for imports; or it could be sold to the authorized banks.

Economic organizations may borrow abroad in accordance with the self-management agreements. Foreigners also may invest in Yugoslavia through joint ventures up to 49 per cent of capital. Repatriation of profits is allowed in specific ways. Economic organizations participating in foreign enterprises may be allowed to transfer the necessary capital under certain conditions. But, outright capital transfer by individual residents is not allowed._/

The complicated trade system is geared to (a) serving the cause of Yugoslavia's industrial development; (b) turning back the perennial tides of external deficits; and (c) maintaining ~~meager~~ sufficient foreign exchange reserves. Under the new trade law, responsibility for maintaining the country's balance of payments equilibrium is transferred to the Republics and Provinces. In each of these political subdivisions, an organization called Yugosláv Community of Interest for Economic Relations with Foreign Countries is formed to supervise the external account.

Foreign exchange is controlled by the state through the Federal Secretariat for Finance, the National Bank of Yugoslavia, and the National Banks of Republics and Autonomous Provinces. All foreign exchange transactions must be carried out through the authorized banks. Payments to and from bilateral trade partners are made in currencies and under terms set forth in the bilaterál arrangements. However, residents and nonresidents can maintain foreign exchange accounts in convertible currencies and may use them freely for payments in Yugoslavia and abroad.
The national banks play an important part in implementing the foreign exchange policy through managing the foreign exchange value of the national currency--the dinar; financing Yugoslavia's international payments; and influencing foreign borrowing. Up to July 1973, the exchange rates for the Yugoslav dinar was fixed by the authorities. The currency was once devalued by 66 per cent in the context of

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_/ Yugoslavia maintains bilateral clearing arrangements with some CPEs and a number of LDCs. But the share of trade with these partners has been on the decline.

the 1965 reforms and the unification of multiple exchange rates. Two more devaluations occurred in 1971. But these rate changes failed to halt the steady rise in imports, or to increase exports as projected. In July 1973, the dinar was floated in the exchange market, and the Government only intervenes from time to time to smooth out drastic fluctuations. None of these measures, however, has been able to stem the tide of foreign trade deficits (reaching $6 billion in 1979) and foreign debt exceeding $13 billion--due to Yugoslavia's inability to generate enough exports. Many analysts blame this inability on the substantial overvaluation of the Yugoslav dinar. But the balance of payments is still expected to be helped by a new investment law promulgated in 1979 which encourages investment in export-oriented and import-substitution industries, and bans investment in "non-productive" schemes.

Foreign Investment Policy

Yugoslavia is again ahead of the other CPEs in seeking to attract foreign private investments in order to substitute imports, increase exports, and acquire modern management and technology. Minority joint venture is the only acceptable form. The new Joint Venture Law of 1978 defines the activities in which foreign partners can participate (not in commerce, public service or insurance), the conditions for repatriation of dividends and principal, taxation, and management prerogatives. Foreign investment has to be approved by the appropriate Republic or Province, the Federal Institute of Economic Planning, and the Yugoslav Chamber of the Economy before being licensed by the Federal Committee of Energy and Industry and be registered.

The inclination toward joint ventures, i.e., cooperation with foreign partners--has been based mainly on the desire to strengthen domestic competitiveness. There is a minimum and maximum of total investment (10 per cent and 49 per cent) for foreign participation, as there is an absolute minimum amount of capital to be brought in (5 million dinars).[/]

/ By OECD estimates, between 1967 and 1978, about 150 joint ventures were undertaken in Yugoslavia.

III. Intergroup Bargaining

Despite its hierarchical political regime under the supreme guidance of the Communist Party, Yugoslavia's great ethnic and religious diversity--the greatest in Eastern Europe--invites a good deal of intergroup dealings and cooperation. For this reason, although the League of Yugoslav Communists (LYC) has the principal responsibility for establishing economic objectives and for overseeing their achievements, all important policy decisions are to be reached through a consensus. Thus, the LYC seeks to institute inter-Republic agreements and secure the approval of the political subdivisions in the determination of national socioeconomic goals, and the resolution of problems of common concern. The LYC also endeavors to conclude, in collaboration with trade unions and the Chamber of Economy, regular social accords in various parts of the industrial sector.

By one interpretation, the very system of self-management in Yugoslavia is an attempt to manage the economy by agreements between the various groups in society--to create national unity by recognizing Yugoslavia's diversity; and to reconcile conflicts through compromise. The multitiered structure of self-management is designed for this purpose.

The pluralistic process of haggling, negotiations and compromise permeates almost all aspects of Yugoslav economic life. Starting at the top, the self-management and multilevel planning requires horizontal and vertical harmonization and coordination between planning agents (e.g., Socio-Political Communities Planning Institutes, Economic Chambers and Producers' Associations). At the mid-levels of aggregation, large industrial complexes, trade unions, and various CIs have to harmonize their "assumptions, expectations and ambitions" as to the prospective level and composition of the social product. At the bottom, BOALs and enterprises have to exchange and adjust their projections, possibilities and potentials. The whole exercise is thus aimed at fusing the varied interests of party leaders, managers, professional cadres, workers and others into one consistent master plan for the allocation of resources and the distribution of income.

Among the Eastern bloc nations, Yugoslavia is without doubt the only country with a formalized technique of multipartite decision-making. When the system of "workers' self-management" was first introduced in June 1950, many critics in the West dismissed it as socialist "window dressing," while non-Yugoslav socialists called it capitalistic revisionism. Yet, this somewhat unique mélange of multilateral bargaining, state direction, and workers' self-determination seems to have offered a viable, if not ideal, alternative to centralized command.

As outlined in a previous section, decision-making in the Yugoslav economy, especially at the enterprise level--is shared by (1) "society" which legally owns the enterprises and their assets, (2) the rank-and-file workers who have a stake in the enterprise's productivity and profit, and (3) the Party élite which is ultimately responsible for the enterprise's success or failure and follows the Party's directives. All decisions regarding the use of the firm's resources, setting personal incomes (above the minimum set by the state), determining prices (where they are not fixed by the Government), and reinvesting part of the enterprise's profits are made by continuous "negotiations" among these elements. Workers' participation in self-management is also facilitated by a general workers' meeting where individual workers can present their view, and by the referendums through which the entire enterprise votes on specially important matters. Each enterprise is also partly controlled by the local Economic Chamber and Producers' Associations to which it must belong.

Labor unions and trade associations in the Western sense do not exist in Yugoslavia. But, both strikes and unemployment do. Yugoslav trade unions are voluntary and essentially political organizations of workers. These organizations, along with the League of Communists and the Socialist Alliance, form the so-called Socio-Political Organizations._/ Almost all workers in the public (social) sector are trade union members. The major tasks of the unions are: (i) to assist self-management through the preparation of procedures and guidelines; and (ii) to initiate self-management agreements on income distribution (i.e., wage rates, bonuses, etc.) and other matters of material interest to workers. In the performance of these tasks, labor unions put up the list of candidates to be elected to the Workers' Councils, and co-sign the self-management agreements.

There are also chambers of worker organizations made up from Workers' Councils at the local, regional and national levels cooperating with government agenices in formulating broad policies on matters of common interest to all working men. Similarly, there are associations of state enterprises on an industry basis for the purpose of cooperation in the exchange of information, scientific research, competitive price policy, etc.

The multiplicity of these organizations and controls, giving Yugoslavia a pluralistic makeup is, however, also the cause of delays, deadlocks and inefficiencies. Economists and the press are dissatisfied with workers' frequent disregard of long-term productivity and modernization, and their great preoccupation with high personal incomes not commensurate with their productivity. The charge is that workers put too much stress on "self" and too little on "management."

On the whole, Yugoslavia's innovative system of "self-management" through compromise has not been able satisfactorily to solve the country's continued economic problems--slow growth, unemployment and inflation. While the Federal Government's scope for influencing the economy has been gradually pared, the increased power of the Workers' Councils has fueled incipient wage and price inflation. The low average level of skill and education of most Council members, and the political nature of many managerial appointments, and the self-centered

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_/ Socio-Political Organizations, in turn, are territorial political units which constitute the "State." They consist of the Federation, the six Republics, the two Autonomous Provinces, and some 510 local Communes.

behavior of industrial workers have been responsible for much of the persistent difficulties. Yugoslavia's claim to have found an original means of eliminating "class" conflicts between workers and management through their fusion into one unified body still remains to be demonstrated._/

_/ The only other such experience--that of post-independence Algeria--has already withered away. See, Ian Clegg, Workers' Self-Management in Algeria (London: Penguin Press, 1971).

IV. The Socialist Market Sector

Yugoslavia's socialist market economy provides for a moderate exercise of consumers' sovereignty. Compared to other CDEs, however, private ownership, operation and initiatives are by far the most extensive.

The 1974 Constitution authorizes certain activities (e.g. small farming, skilled crafts, services) to be carried on by personal labor and with minor means of production owned by individuals. Professional activities (law, medicine, etc,) may also be pursued on the basis of self-employment. This limited private sector allows ten hectares of arable land in agriculture; five salaried workers in any other business activity. Permitted also are cooperatives formed by farmers or craftsmen in which they can maintain ownership rights and dispose of them freely. Private individuals and cooperatives may also conclude long-term association agreements with public enterprises which could entitle them to full participation in their self-management. And, finally, the Law on Associated Labor allows individual working people to pool their financial resources in a contractual organization which could operate as a business unit; employ salaried workers without limits; receive extra income in accordance with their share of ownership; and reinvest these incomes in the business for expansion.__/

The private sector presently consists of small, individually-owned peasant farms, professional services and catering run by self-employed individuals, and industrial small enterprises. The sector accounts for about 18 per cent of the social product. Under the Yugoslav Constitution, land ownership is essentially private. Some 84 per cent of the country's farmland (8.5 million hectares) is farmed by 2.6 million private farms of between two to/ ten hectares. Private farms employ some 33 per cent of the resident labor force, and account for about 58 per cent of marketable agricultural production. There is no mandatory delivery of farm products to the state at fixed prices. Except for certain staple food products, the prices of which are

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__/ Under a law passed early in 1979, individuals and groups of citizens can operate private shops and workshops; they can also invest their savings jointly with "socialist" enterprises, earning a part of the profit.

fixed, and also supported by the state, farm products are controlled by supply and demand in the free market. Farm prices have moved almost relentlessly upward since the early 1950s as a result of heavy demand pressures from expanding population and high production costs._/

There is an estimated coterie of 250,000 small businesses in small manufacturing plants employing five workers or less, restaurants, inns, beauty parlors, repair shops, and retail stores in private, self-employed hands. More than half the taxis and thousands of commercial trucks are owner-operated. Many homes, apartments and villas are privately owned. The majority of residential housing is privately constructed. Fixed-interest bonds are issued by enterprises and owned by private individuals. People are also encouraged to buy interest-bearing government bond issues. After the 1965 reforms, some of the major characteristics of a market economy--decentralized decision-making at the enterprise level, the limited role of interest in both saving and investment decisions, and freedoms in setting production and price policies--are increasingly in evidence._/

As part of its economic reforms, Yugoslavia since 1967 has welcomed foreign private investors to take advantage of the country's cheap labor, industrial base, and hydroelectric potential to set up 49-51 per cent joint ventures with Yugoslav firms. The foreign investment law allows foreign corporations to share in the profit of local companies with freedom to take back all their investment, and most of their earnings. The aim has been to gain access to Western private know-how, patents, processes, and marketing techniques.

_/ Mandatory limits of 25 acres on private land holdings (state and collective farms are exempt), and prohibition against hiring farm hands, however, are considered among major obstacles to increased farm productivity, and the principal reason for agriculture remaining Yugoslavia's most lagging sector.

_/ The General Export--founded in 1952 to facilitate Yugoslav exports to hard currency markets--is a commercial enterprise in everything but legal structure. Although legally operated as a collective, under worker self-management, it is, in effect, run by an enterprising general manager. Genex operates a commercial airline--the first in the communist world--a commercial radio station, and has large interests in Yugoslav banks, industrial companies, and tourist facilities.

The Yugoslav Economy: An Overview

In Yugoslavia's maverick system, neither a centralized hierarchy nor the free market has the ultimate decision-making power. They both have limited functions. Instead a complex array of delegated and multilateral processes, assisted in various forms and degrees by the state and the market, are responsible for the management of the economy._/

Under the 1974 Constitution, the state functions are decentralized to the largest possible degree among lower echelons of political organizations. Furthermore, the government is freed to the largest possible extent from the management of the economy. Specifically, the state does not own or operate the means of production; it has no financial or administrative control over the production and distribution of social services; its revenues are limited to what is necessary for financing current classical functions (e.g. defense, justice, etc.). The state role in the economy is thus largely residual and restricted to: (i) resolving conflicts and establishing consensus between completing organs and institutions in society, particularly in matters of social priorities; (ii) to monitor implementa-

_/ A Yugoslav industrial expert is reported to have said "our self-management is a mixture of totalitarianism and anarchy, but it is the best we have." See below for reference.

tion of social plans; and (iii) a few direct controls affecting the national interest (e.g. fixing prices of a few key items). The actual state involvement in the economy takes place mostly through Social Compacts.

The market also enjoys very limited functions on the Yugoslav scene. Market socialism simply means a complex set of social actions and transactions in the market place, broadly defined. Indeed with the exception of a variety of goods and services (mostly consumer items) for which the market is competitive and prices determined by supply and demand, the market mechanism has no part to play in Yugoslav economic management. The market for labor is rejected on ideological groundsin order not to treat workers as a "commodity". Wages and labor remunerations are part of the residual incomes of BOALs enterprises (after all other expenses but before taxes); they are determined within certain criteria and limits defined in Social Compacts and Self-Management Agreements. Similarly, there is no "capital market." The decision regarding reinvestments is made by enterprises themselves within broad guidelines. Much investments are thus self-financed. Banks do exist, and credit is extended to borrowers at interest. There are also inter-enterprise investments based on income and risk sharing arrangements. But interest rates are administratively determined, and thus not equilibrium rates. Rents, too, are mostly fixed in interagency agreements and are not necessarily equilibrating.

With regard to goods and services, except for certain items mentioned before, there is no real market in the classical sense. For public goods and social services supplied by Communities of Interest, the market mechanism is ruled and by definition. All transactions between suppliers and users are in a sense rationed and categorized as "free-exchange of labor" -- making participants in the CI directly responsible for financial arrangements to cover cost. In the case of goods and services transferred and delivered among BOALs or enterprises, the Self-Management

Agreements regulate the terms. Transfer prices are thus a matter of agreement among interested parties; they are often not paid or received, but accounted for in income-sharing formulae. These prices may differ substantially and for some time from the true "equilibrium prices". And, finally, there are certain "basic" or "strategic" goods and services for which prices are controlled by Social Compacts or administrative decisions._/

In short, neither the state nor the market in Yugoslavia is relied upon to ensure a supply-demand equilibrium or a welfare optimum. They are both expected to give certain signals for the decision-makers to follow. State signals are meant to show the way toward a stable equilibrium and an optimal welfare. Market signals are expected to reflect consumers' reactions to the State directions.

The weaknesses of this hybrid system are not few. Despite considerable measures of price controls on which the Yugoslav authorities have relied heavily in recent years, the rate of inflation has often been far larger than planned (e.g. 23 per cent rise in the cost of living in 1979 as against the projected 13 per cent), and higher than in most other European countries throughout the 1970's. Despite a very generous official policy in favor of very low interest rates, the total cost of ongoing investment projects have far exceeded the amount laid down in the Social Plan (1976-80)./ Despite heavy emphasis on self-management planning, investment in certain sectors (e.g. energy, transportation and ship-building) have recorded increases well in excess of those planned; but in other sectors (e.g. agriculture, tourism and housing), it has fallen short of official targets. Industrial productivity at only 2.2 a year has been nearly half of the planned 4 per cent. Despite the elimination of "capitalist" enterprêneurs, Yugoslav

_/ There also have been complete price freezes on a range of goods and services, and top limits on prices which are normally allowed to fetch their own level in the market, as in the 1979 summer when the inflation rate threatened to reach 20 per cent.

unemployment has recently been the highest in Europe (around 12 per cent)--not counting a million workers abroad. And most interesting of all, despite the prevalence of "self-management" by workers, Yugoslav industries have been facing a rising number of strikes (called "work stoppage") with an increasing number of workers taking part in them._/

Except for a very respectable rate of growth, and for personal incomes that have been rising faster than labor productivity, Yugoslavia's record in internal and external economic instability (i.e., inflation and balance of payments deficits), high foreign indebtedness, unemployment, management efficiency, capacity utilization, and materials waste has matched the poor performance of countries in either socialist or non-socialist camps. If history is any guide to objective judgment, it looks like it would take many moons before Yugoslavia, too, finds its ideal path to an incontestably successful economic direction and management.

_/ One Yugoslav trade union leader has defined Yugoslav strikes as "a specific form of the working-class struggle taking place after specific mechanisms of the self-management system have failed." See "Jugoslavia," The Economist (August 11, 1979).

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YUGOSLAVIA

BASIC DATA

LAND AREA (sq. km.)	256,000
POPULATION (1977 estimate)	22 million
Net annual increase (1970-77 yearly average)	0.9 %
Urban (per cent of total, 1975)	38 %
Working Age (15-64) (per cent of total, 1977)	66 %
LABOR FORCE (total civilian, 1977)	9.5 million
Agriculture, forestry, fishing (per cent of total)	42 %
Mining, manufacturing, construction (per cent of total)	24 %
Services, etc. (per cent of total)	34 %
GROSS DOMESTIC PRODUCT (market prices, 1977)	$ 47 billion
Per capita (1977)	$ 1,960
Average annual increase (1960-77)	5.6 %
Public consumption (per cent of GDP, 1977)	20 %
Private consumption (per cent of GDP, 1977)	54 %
Fixed capital formation (ratio to GDP, 1977)	33 %
Savings (ratio to GDP, 1977)	26 %
GROSS DOMESTIC PRODUCT (market prices, 1977)	$ 47 billion
Agriculture, forestry, fishing (share in GDP, 1977)	16 %
Mining, manufacturing, fishing (share in GDP, 1977)	45 %
Services (share in GDP, 1977)	39 %
FOREIGN TRADE	
Exports (per cent of GDP, 1978)	12 %
Imports (per cent of GDP, 1978)	21 %

cc: Mr. Mountford

Office Memorandum

Minor comments

TO : Mr. Whittome

DATE: April 14, 1980

FROM : A. Mountford AM

SUBJECT : Yugoslavia--Postponement of Discharge of Repurchase Obligation

Yugoslavia has a repurchase obligation equivalent to about SDR 62 million under the old Article V, section 7(b), that will become payable at the end of April. As we expected, the Yugoslav authorities have asked that this repurchase obligation be postponed to coincide with various oil facility repurchase installments due in the remainder of 1980 and early months of 1980. You indicated to me earlier that we should support this request.

The attached draft is the short section of the EBS document that will be required to get Board approval on a lapse of time basis. It gives the balance of payments justification for accepting the requested postponement. If you agree, it can then go to Treasurer's Department, who will prepare the rest of the paper.

Attachment

cc: Mr. Tyler (o.r.)

DRAFT
AMountford
4/14/80

Yugoslavia's balance of payments position, including developments in 1979 and the prospects for 1980, is described in the staff paper on Yugoslavia's recent use of Fund resources under the compensatory financing facility (EBS/80/14, 1/21/80).

The balance of payments worsened in 1977 and 1978, with current account deficits of about $1.3 billion in both years, largely due to resumption of strongly expansionary policies. In 1979 the Yugoslav authorities introduced a stabilization program intended to dampen domestic demand pressures, reduce inflation, and keep the current account deficit in the region of $1.0 billion. In practice, however, the balance of payments situation deteriorated sharply, with a widening of the current account deficit to $3.4 billion, which led to a fall in the gross foreign reserves of the banking system by about $1.2 billion to a level of $2.0 billion at the end of 1979, equivalent to only 1.2 months of current account payments at the projected 1980 level.

Para # In part, this severe deterioration reflected ~~in~~ a lack of success of the stabilization program, as the buoyancy of domestic demand continued unabated, with strong increases in all categories of consumption and investment. The continuing strength of demand, and an acceleration of inflation, led the authorities to introduce additional stabilization measures in mid-1979, and there are indications that the rate of growth decelerated ~~of a deceleration of growth~~ in the second half of the year. Nevertheless, for the year as a whole, the continued overheating of the economy was one factor contributing to the stagnation of exports and a high increase in the volume of imports. But the widening of the current account deficit in 1979 was also related to the combination ~~of a series~~ of adverse special factors, notably the impact on earnings from tourism of an earthquake in Montenegro in April 1979, the increase in prices of oil and other imported raw materials that ~~produced~~ led to a 4 per cent deterioration in the terms of trade, and bad weather which reduced corn exports and necessitated imports of wheat. For 1980, the authorities have introduced a stronger stabilization program, designed, inter alia, to reduce the rate of inflation to 17 per cent (GSP deflator), slacken the pace of expansion (from 7.1 per cent in 1979 to 5 per cent in 1980, in terms of real growth of GSP) and reduce the current account deficit to $2.0 billion. Preliminary information suggests that exports rose vigorously in the first two months of 1980, and the growth of imports slackened, but despite this there was a further substantial loss of reserves. For the year as a whole, the authorities ~~are planning~~ estimate that capital inflows will more than cover the forecast current account deficit, ~~to allow~~ so allowing some increase in the reserves from their present level.

It is recommended that the proposal of Yugoslavia be accepted.

LAW
Worth reading.
ST 3/27

Office Memorandum

TO : Mr. Tyler

DATE: March 27, 1980

FROM : A. Mountford

SUBJECT : Commercial Banks' Calls About Yugoslavia

There has been a discernible increase in the interest shown by commercial banks since December 1979, and there have been many calls in the last two weeks. In most cases, the inquiries relate mainly to factual or statistical questions, but increasingly the banks are seeking to trap us into making evaluative statements about the future. For the time being these are easy to avoid, but this may become more difficult.

In some recent calls, I have responded by asking the banks how they feel, and the answers are quite interesting. Those banks that make their own balance of payments forecasts (e.g., Morgan Guaranty, Irving Trust, and Union Bank of Los Angeles) regard the official target of a current account deficit of US$2 billion as unattainable: their own rough forecasts are in the range of US$2.6 billion or US$2.75 billion, but it should be borne in mind that the banks are not aware of the oil pipeline problem (which will add at least US$300 million to the import bill in 1979).

There are clear indications that Yugoslavia has been approaching a lot of banks in the early months of 1979. My guess is that they have included some previously untapped banks in these efforts. It is too early to judge whether they have been successful. Some major banks, however, (Morgan Guaranty, Irving Trust) have become more cautious than before about Yugoslavia, and one person even suggested that in 1980 Yugoslavia would probably be able to borrow less in total (presumably on a net basis) from the banks than in 1979. If this is the case, it has serious implications.

You will recall that, when I talked about the consultation mission to Mr. Stojiljkovic on March 13, he indicated that Yugoslavia was in the process of approaching the banks in Europe and the U.S.A. for new loans, and that the Yugoslav authorities were inviting the banks to call the Fund if they had questions about economic developments and policies. At that time also, Mr. Stojiljkovic said he would appreciate hearing from us if there was any significant feedback. If you agree, I shall call him and describe the reactions described above, without, of course, mentioning any bank by name.

In present circumstances I would prefer that we not contact Stojiljkovic. If he calls, then I think it would be correct to tell him the facts in the way you describe

March 31, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia and Romania

Mr. Ruding telephoned to ask whether we had any late news from Yugoslavia. He said that he intended to phone the Minister and Bogoev to push once again the arguments in favor of a stand-by with the Fund. Personally he did not think that they would make a decision until after the Hamburg meeting where they would have an opportunity to take the temperature of the Group of 24.

I said that for my part I had three points to put in his mind. First that the claims on the SFF were now mounting and if all potential claims came through we would be eating into the amount left quite rapidly. Secondly that the most recent data from Yugoslavia suggested that the underlying position both with the domestic economy and the balance of payments might be somewhat worse than had seemed to be the case three or four weeks ago. Thirdly we had been receiving a lot of calls from commercial banks generated by Yugoslavia's requests for further bank facilities and we had gained the impression that there was some unease about Yugoslavia's accounts.

I took this opportunity to tell Mr. Ruding we were faced with a very weak CFF application from Romania. Weak both in the sense that the technical case was much less clear than we would have wished and because we found that we had no good answer to meet questions as to the degree of Romania's cooperation with the Fund. I therefore told him that we were pressing hard on the IFS page and I hoped that if Bucharest phoned him he would support us. He said he had no difficulty and would do so.

L.A. Whittome

cc: EED

File

YUGOSLAVIA

Office Memorandum

TO : Mr. Tyler

FROM : P. Holden P.H.

SUBJECT : Current Account and Price Data for our Countries for 1979

DATE: February 15, 1980

	Greece	Israel	Romania	Yugoslavia
Current account deficit (In millions of US$)	1,470	3,600	695	3,185
Current account deficit/GDP	4	21	approx.3 1/	5
Rate of inflation 2/	20	78	2	23

1/ The estimate is a very rough approximation since no GDP figure is available and national income (in Romanian definitions) is available in lei only and there is no exact exchange rate to convert to U.S. dollars.

2/ Average 1979 on average 1978.

AP

February 12, 1980

MEMORANDUM FOR FILES

Subject: Yugoslavia--Conversation With Mr. Ruding

Mr. Ruding telephoned me from the Netherlands following a visit of several days in Belgrade.

He said that recent economic developments were rather encouraging. The federal government had introduced a new program which, in his view, was quite tough and impressive. As examples of strong measures, he mentioned that it had been decided that none of the increases in oil prices should be allowed to pass over into higher nominal wages. As a result, real wages in public sector will decrease by around 2 per cent in 1980. There are also measures to cut back investment and consumption at republican levels. The authorities had committed themselves to becoming more active in the exchange rate field and in January, the nominal effective exchange rate had fallen by 3 per cent.

The Vice Prime Minister who looks after economic affairs (Mr. Ikonic) admitted that measures taken last year had had little impact on republics and enterprises. In contrast, policies this year had received a full commitment from the Federal Assembly and from the republics. Mr. Ruding said he was encouraged by this new attitude.

Regarding the possible stand-by arrangement, to be discussed during the forthcoming mission, Mr. Ruding said that the Yugoslavs had a preference for a one-year program and wanted the second and third credit tranches, together with SFF. I said that I could see little hope that staff and management would agree to a one-year arrangement with this much money, given the current economic situation of Yugoslavia. Mr. Ruding did not disagree with this, but said that he would not want a longer program to run past the end of 1981.

GT

Geoffrey Tyler

cc: Mr. Whittome ✓

Mr. Rose

Office Memorandum

TO : Mr. Finch
Mrs. Lachman

DATE: February 8, 1980

FROM : Geoffrey Tyler GT

SUBJECT : Yugoslavia--Import Restrictions

I preface this memorandum by apologizing for raising the subject at such a late stage, but its importance is such that we need to have an agreed staff view when we discuss a possible stand-by arrangement with the Yugoslav authorities.

In the context of the Yuguslav Constitution and associated laws, planning of foreign trade has devolved to a great extent to the enterprise level. In particular, individual enterprises must agree between themselves about how much they each will export and import so that their republican trade targets will be achieved. If in the course of the year it becomes evident that the target for imports is being exceeded, enterprises have an obligation to take appropriate measures to reduce their import demands or the republics or the Federation may instruct them to take such action.

In 1979 the latter occurred. In mid-year the federal and republican governments agreed that to fulfill the 1979 balance of payments target it was necessary to limit imports of goods once republics' imports had reached the planned levels and the procedure used was that the republican National Banks would not register any new contracts after that time unless exports exceeded planned levels. This measure was carried out within the framework of the self-management system.

My interpretation of the measure, made inter alia in the light of the discussion of the legal position in Yugoslavia contained in SM/78/246, is that we would probably regard this measure as the imposition of an import restriction--and perhaps as an exchange restriction if it turns out the National Bank action involves the withholding of foreign exchange. It is at least possible that a similar mechanism will be used in the future if imports appear to be greatly exceeding planned levels, since it is a logical extension of the basic system of planning foreign trade. In a stand-by period, we could therefore be faced with the possibility that we would have a breach of a performance criterion. In any case, I suppose we shall have to decide whether the 1979 action was a restriction since we shall need to describe performance under the first credit tranche stand-by arrangement of May 1979.

It seems to me that the mission needs to know two things:

(i) whether action of the kind described above would be classified as an import (or exchange) restriction; and

(ii) what the Fund attitude might be toward such a restriction in the context of an upper tranche stand-by arrangement, in particular whether we would be willing to support any requested modification of the stand-by arrangement.

I hope that we could have a short discussion of the matter, preferably before the main body of the mission leaves on Tuesday afternoon, February 12. If that is not possible, then it could be later in the week since I shall be in Washington until February 19, inclusive.

cc: Mr. Rose
Mr. Mountford
Mr. Hicks
Mr. Loser

cc: EED

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

February 1, 1980

MEMORANDUM

To: Treasurer
Internal Auditor
Director, European Department
Director, Exchange and Trade Relations Department
Director, Legal Department

From: The Secretary

Subject: Yugoslavia - Purchase Transaction - Compensatory Financing Facility

At EBM/80/16 (2/1/80) the Executive Board agreed to the request of Yugoslavia for a purchase transaction under the decision on compensatory financing of export fluctuations, as set forth in EBS/80/14 (1/21/80).

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

January 15, 1980

MEMORANDUM

To: Mr. Finch
Mr. Habermeier
Ms. Lachman

From: N. Kaibni NK.

Subject: Compensatory Financing Facility--Yugoslavia

I would appreciate receiving your comments on the attached draft by noon, Thursday, January 17.

cc: Mr. Hood
Mr. Schwartz
Mr. Whittome

CT to see Pl

AAM –

(1) Pl see p4 & p7 ct A/c presents increased cost of oil

(2) Are your results believable? ... will alone lead to a deterioration as between 79 & 80 (this is so for all oil importers that we dealt with) let alone the assumption of zero increase in volume of imports. Can you estimate approximate cost of rise in oil prices?

JP 16/1

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Use of Fund Resources--Compensatory Financing Facility

Prepared by the Research and European Departments

(In consultation with the Exchange and Trade Relations, Legal, and Treasurer's Departments)

Approved by Wm. C. Hood and L.A. Whittome

January , 1980

The Managing Director has been informed that the authorities of Yugoslavia will shortly request a purchase of the equivalent of SDR 138.5 million (50 per cent of quota) under the compensatory financing facility. The request is expected to be made with respect to a shortfall in aggregate earnings from exports, travel, and workers' remittances for the calendar year 1979. If approved, the purchase would raise the member's outstanding purchases under the facility from 50 per cent to 100 per cent of quota. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement will be required.

This paper, which is circulated in advance of the formal request from Yugoslavia, is presented in five sections and an annex. The sections deal with (1) cooperation with the Fund and balance of payments position, (2) estimation of the shortfall, (3) causes of the shortfall and earnings prospects, (4) repurchase, and (5) staff appraisal and proposed decision. Yugoslavia's relations with the Fund are summarized in the annex.

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

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1. Cooperation with the Fund and the balance of payments position

a. Cooperation with the Fund

Since the proposed purchase (SDR 138.5 million) will raise the amount outstanding under the CFF above 50 per cent of Yugoslavia's quota (SDR 277 million), the Fund must be satisfied that Yugoslavia has been cooperating with it in efforts to find appropriate solutions for its balance of payments difficulties. The staff's reasons for believing that this requirement is met are given below.

In March 1979 the Yugoslav authorities communicated to the Fund a financial program for the calendar year 1979, in support of which the Fund in May 1979 approved a stand-by arrangement in the first credit tranche (SDR 69.25 million). Executive Board discussion of the stand-by arrangement coincided with both the 1979 Article IV consultation and approval of a purchase under the CFF on the basis of jn export shortfall for calendar year 1978.

Yugoslavia's economic performance during 1979 has in some respects fallen short of that envisaged in the financial program. The most important area in which developments in 1979 were disappointing, by comparison with the aims of the program, was the balance of payments. The current account deficit widened sharply, to SDR 2.5 billion, partly due to developments abroad, and partly to the continued overheating of domestic demand. Inflation accelerated in 1979, as the rise in consumer prices during the year was about 24 per cent compared with 15.6 per cent in 1978, and the original program target of 13 per cent. The increase in producer prices was about 17 per cent. One of the main reasons for the higher than projected rate of inflation was the increase in oil prices, which was quickly reflected in domestic prices. An additional factor was the unexpected strength of domestic demand in 1979, as real growth of GDP remained at the 7 per cent rate of 1978, although there is evidence of a gradual slackening in the pace of expansion in the second half of 1979.

In response to the unexpected developments, the authorities took additional measures in the course of 1979. In particular, a partial price freeze was introduced in August 1979, and compulsory down-payments for goods bought on hire purchase were raised. In addition, agreements were reached with enterprises to curb nonessential spending. These measures may have contributed to the gradual slowing down of the economy in the second half of the year. For the year as a whole, consequently, the growth of reserve money and money supply remained below the ceiling established in the financial program, although the increase in domestic credit was considerably larger. In the field of public finance, the federal budget outcome is estimated to have been close to the plan, but preliminary indications are that expenditures by the republics and provinces grew more rapidly than intended and contributed to the continued overheating of the domestic economy.

For 1980 the authorities intend an intensification of the stabilization effort, and have programmed a more distinct slowdown in economic activity with a real increase of GDP of 5 per cent, compared with the 7 per cent in 1979. Producer prices are projected to rise by 12 per cent, and retail prices by 17 per cent (annual averages). Procedures have been instituted to bring the growth of public expenditure under better control, especially with respect to nonessential investment by local government bodies. Monetary policy will aim at keeping the growth in domestic credit and money supply to rates that are consistent with the targeted reduction in inflation.

With more effective domestic stabilization measures and assuming that the special factors that affected the current account adversely in 1979 are not repeated, the authorities hope to achieve a reduction in the current account deficit to SDR 2.0 billion in 1980. The intended measures to improve the balance of payments position include new credit facilities for exports, and a more active policy with respect to the exchange rate. The aim of policy will continue to be to permit a gradual effective depreciation over time that is sufficient to compensate for the inflation difference between Yugoslavia and her main trading partners. It is felt, moreover, that the effective depreciation in 1978 and 1979 may not have been sufficient to restore completely the competitive position, and the authorities accordingly hope to be able to achieve a more rapid and effective compensation for inflation differentials in the future.

The authorities have remained in close contact with the Fund staff. The unexpected difficulties which emerged in 1979 and the policy measures adopted to cope with them were discussed during the Annual Meetings in October 1979, and more recently on the occasion of a mission to Belgrade in December to explore the possible use of Fund resources under the compensatory financing facility. A staff mission will visit Yugoslavia in February 1980 to conduct the Article IV consultation discussions. The request for a CF purchase is expected to include a statement that Yugoslavia will cooperate with the Fund in efforts to find appropriate solutions for the balance of payments difficulties. The staff is of the opinion that the stricter test of cooperation associated with the proposed purchase has been met.

b. <u>Balance of payments position</u>

After recording deficits in 1977 (SDR 1.1 billion) and 1978 (SDR 0.9 billion), the current account deficit of the balance of payments increased sharply to SDR 2.5 billion in 1979 (Table 1). Originally, in the financial program for 1979, a current account deficit of SDR 0.8 billion had been forecast on the assumption of less buoyant domestic demand, and continuation of a more active exchange rate policy. In the event, however, the stabilization program was less effective than had been expected in dampening the excess demand pressures. At the same time, import prices (particularly for oil and raw materials) increased faster than expected, and foreign demand for Yugoslav exports slackened. Moreover, an earthquake in April 1979 adversely affected earnings from tourism.

The main element in the widening of the trade deficit in 1979 was the sharp expansion of imports (26 per cent), reflecting mainly higher import prices (18 per cent). Merchandise exports were about unchanged in 1979 in volume terms, and almost all of the 13 per cent increase was due to higher prices. The terms of trade deteriorated by about 4 percentage points.

The surplus on invisibles account was the same in 1979 as in 1978 (SDR 2.8 billion), even though earnings from tourism fell, due to the impact of the earthquake and the subsequent adverse publicity which affected the 1979 summer season. Receipts from workers' and emigrants' remittances rose reflecting the appreciation against the SDR of the currencies of the European countries in which most Yugoslav workers abroad are employed.

On capital account, net long-term inflows in 1979 amounted to SDR 776 million, or SDR 302 million less than in 1978. Net short-term capital inflows

Table 1. Yugoslavia: Balance of Payments, 1977-80

(In millions of SDRs)

	1977	1978 Preliminary	1979 Estimate	1980 Forecast
Exports, f.o.b.	4,435	4,641	5,228	5,967
Imports, c.i.f.	-8,353	-8,351	-10,501	-11,207
Trade balance	-3,918	-3,710	-5,273	-5,240
Receipts from workers and emigrants	2,133	2,358	2,631	2,939
Travel receipts	779	915	897	1,023
Other, net	-120	-506	-730	-709
Invisible balance	2,791	2,767	2,798	3,253
Current	-1,127	-943	-2,475	-1,987
Capital account				
Long-term capital received				
Drawings	2,283	2,236	2,170	3,303
Repayments	-899	-1,038	-1,317	-1,360
Long-term loans extended, net	-182	-120	-77	-116
Short-term capital, net 2/	-108	133	678	722
Of which:				
Compensatory borrowing, net 3/	(64)	(280)	(194)	(386)
Capital account balance 2/	1,094	1,211	1,454	2,276
SDR allocation	--	--	--	--
Overall balance	-33	268	-992	318
Excluding net compensatory borrowing	-97	-12	-1,186	-68
Financing the deficit 4/				
Use of Fund resources	-96	-75	165)	
SDRs	-3	-4	-26)	
Reserve position in the Fund	--	-62	61)	-318
Gold	-2	-4	-3)	
Official foreign exchange	-44	-205	775)	
Other	179	82	20)	
Total	33	-268	992	-318
Memorandum item:				
Gross convertible international reserves (end of period)	2,283	2,415	1,445	...

Sources: Data supplied by the Yusoglav authorities; and staff estimates.

1/ Converted from U.S. dollars at rates (U.S. dollars per SDR 1): 1977, 0.8656 1978, 0.79872; 1979, 0.77492; and 1980, 0.77288. Trade account and credits from travel and workers' and emigrants' remittances at current exchange rates; other i visibles and capital account at historic exchange rates. Detail may not add beca of rounding.

2/ Includes net errors and omissions, changes in bilateral balances, adjustments.

3/ By commercial banks.

4/ Increase in assets (-).

(including errors and omissions, etc.) were SDR 678 million (SDR 133 million in 1978), of which compensatory borrowing by the commercial banks amounted to SDR 194 million. This left an overall balance of payments deficit of SDR 992 million (compared with a surplus of SDR 268 million in 1978), which was financed mainly by a reduction in official foreign exchange.

The current account deficit in 1980 is forecast to decrease to SDR 2.0 billion, on the basis of an increase in the volume of exports in response to the forecast growth of foreign demand for certain exports, a more normal harvest, an intensification of measures of domestic restraint, and an expected recovery of the tourism sector. The official forecast of a zero increase in the volume of imports, however, may prove difficult to realize. In addition, the forecasts were made before the further increase in crude oil prices in December 1979. Therefore, the current account deficit may well be somewhat larger than the official forecast, unless policy is tightened even more than had been foreseen.

The considerable amount of foreign borrowing since 1977 has raised the level of external debt, and the external debt ratio at end 1979 is estimated at 21-22 per cent with convertible currency countries. The authorities regard the debt situation as manageable, although they would not wish to see a marked increase in the debt service burden.

After the sizable reduction in gross convertible international reserves in 1979 to SDR 1.4 billion, some increase in official reserves in 1980 is planned by the authorities. This is expected to be made possible by a net inflow on capital account of SDR 2.3 billion, including some SDR 386 million of net compensatory borrowing by the commercial banks.

2. <u>Estimation of the shortfall</u>

The Yugoslav authorities have requested that calculation of the shortfall be based on data covering workers' remittances and receipts from travel, as well as merchandise exports. This is the first instance of a member requesting inclusion of the two services items in the calculation since such treatment has been permitted by the 1979 compensatory financing decision. The staff is satisfied that the data on workers' remittances and travel compiled by Yugoslavia are sufficiently reliable for the purposes of the 1979 CF Decision. Under the terms of that Decision, the choice is binding for five years and therefore any CF request by Yugoslavia before February 1985 would have to be based on the same coverage as that used for the present request.

The authorities have requested that the calandar year 1979 be treated as the shortfall year and in order to do this, the staff, in cooperation with the Yugoslav authorities, have estimated earnings for the part of the shortfall year for which data are not presently available; earnings have been estimated for December 1979 in the case of merchandise exports and for the three months October-December in the case of workers' remittances and travel. Merchandise exports for December are estimated at SDR 516 million, and the value for the year as a whole, at SDR 5,228 million, or 13 per cent higher than in 1978. Earnings from workers' remittances and travel in the last quarter of 1979 have been estimated by assuming that the rate of change for the first three quarters of 1979 over the corresponding period of 1978 will continue in the last quarter of 1979. On this basis, workers' remittances for calendar year 1979 are estimated at SDR 2,631 (12 per cent above 1978) and receipts from travel at SDR 897 million (2 per cent below 1978).

The aggregate value of merchandise exports and services receipts increased by about 10 per cent per year from the average level in 1977-78 to 1979. ~~shortfall year~~ Growth in the two post-shortfall years, 1980 and 1981, is projected to accelerate to slightly more than 13 per cent per year. The shortfall estimated on the basis of the judgmental forecast is equivalent to SDR 190 million, which is 38 per cent larger than the amount of the purchase expected to be requested (Table 2). The shortfall for merchandise exports, at SDR 125 million, was twice as large as the combined shortfall for workers' remittances (SDR 22 million) and travel (SDR 42 million), but if the two services are not taken into account, the amount that could be purchased by the member would be less than the proposed amount, which is the maximum permitted by the quota limitation.

A previous compensatory financing purchase (SDR 138.5 million) by Yugoslavia was made in May 1979 with respect to an export shortfall for calendar year 1978 (EBS/79/272, dated 5/11/79). On the basis of actual data for the first eleven months of that post-shortfall period and currently estimated data for the remainder, Yugoslavia incurred an estimated shortfall equivalent to SDR 228.7 million compared with the judgmental shortfall of SDR 239.5 million made at the time of that purchase.

3. Causes of the shortfall and earnings prospects

Yugoslavia's merchandise exports cover a wide variety of products, ranging from raw materials and semi-manufactures to heavy industrial products,

Table 2. Estimation of the Shortfall in Aggregate Earnings from Merchandise Exports, Workers' Remittances and Travel

(In millions of SDRs)

				Calendar years		
				1980-81 geometric average		
	1977	1978	1979	Formula 1/	Judgmental	Minimum 2/
Total earnings	7,347	7,914	8,756	10,556	10,610	10,457
Shortfall						
Formula			172.2			
Judgmental			190.5			
Minimum			138.5			
Proposed purchase			138.5			

1/ Calculated from yearly earnings shown in the first row of Table 4 as:

$$(7,347 \times 7,914)^{1/2} \quad \left(\frac{8,756 \times 7,914 \times 7,347}{5,002 \times 5,670 \times 6,767}\right)^{1/3}$$

2/ Level at which shortfall is equivalent to SDR 138.5 million or 50 per cent of quota.

and its main trading partners are the developed countries and the CMEA and other socialism countries. After slowing to 5 per cent in both 1977 and 1978, the rate of export growth is estimated to have inreased by 13 per cent in 1979, largely as a result of the higher economic growth of the EC countries, especially Italy and Germany (Tables 3 and 4). The recovery reflected primarily an increase in export unit values occasioned by stronger foreign demand, and the volume of exports actually declined. The export shortfall experienced in 1979 was primarily due to volume factors.

Buoyant domestic demand was partly responsible for the stagnation of the volume of exports in both 1978 and 1979, but a number of other special factors, which were largely outside the member's control, are believed to have been the primary cause of the export shortfall. These include the depressed state of world shipping markets, which reduced Yugoslavia's ship exports by 31 per cent, and a poor harvest which virtually wiped out corn exports. Other factors included the sharp increase in oil prices, the impact of EEC policies with respect to imports of clothing and footwear, and the adverse effects of the common agricultural policy on Yugoslavia's exports of meat and meat products.

The outlook for merchandise exports over the two post-shortfall years suggests a 14 per cent annual rate of increase in nominal terms. Appropriate measures are being taken to free more supplies for export and enhance the competitive position of Yugoslavia's exports in foreign markets. The forecasts are to a large extent based on orders and contracts already concluded with foreign buyers, especially for ships and metals. In addition, corn output has recovered sufficiently to allow a return in 1980 to former export levels. The forecasts are also in part based upon the increasing importance

Table 3. Yugoslavia: Earnings from Workers' Remittances, Travel, and Exports, and Shortfalls by Major Commodities

(In millions of SDRs)

	Calendar years								Shortfall	
	1974	1975	1976	1977	1978	1979	1980	1981	Geometric	Arithmetic
Total Earnings	5,001.5	5,660.7	6,767.3	7,346.7	7,913.5	8,755.5	9,928.0	11,338.2	190.5	302.8
1. Workers and Immigrants' remittances	1,256.4	1,612.6	1,815.5	2,132.7	2,357.8	2,630.9	2,938.5	3,379.0	21.8	56.9
2. Travel	638.4	694.2	726.7	778.6	915.3	896.6	1,022.5	1,115.3	42.1	49.1
3. Total exports	3,163.9	3,353.8	4,225.1	4,435.4	4,640.4	5,228.0	5,967.0	6,843.9	124.7	196.8
3.1 Raw materials and semi-manufactures	1,177.3	1,049.8	1,338.9	1,254.8	1,209.4	1,439.7	1,503.1	1,680.7	-32.4	-20.4
3.11 Nonferrous metal	365.5	297.5	323.7	255.4	246.9	282.3	340.2	389.6	15.9	22.3
Aluminum and aluminum processed	97.3	103.7	130.1	123.4	126.3	143.8	168.2	208.5	7.2	10.2
Copper and copper processed	182.6	108.2	126.9	68.0	58.5	63.4	81.2	85.6	7.2	7.9
Other nonferrous metals	85.6	85.6	66.7	64.0	62.1	75.1	90.9	104.4	2.6	4.2
3.12 Other raw materials and semi-manufactures	811.8	752.3	1,015.2	999.4	962.5	1,157.4	1,162.9	1,291.1	-49.2	-42.7
Lumber, wood and cork manufactures	200.7	160.6	289.5	338.5	280.5	325.8	370.2	408.8	16.2	19.0
Textiles	165.4	166.0	239.8	224.5	223.6	262.3	270.2	294.6	-8.7	-7.3
Metal manufactures	110.6	145.0	172.4	167.2	188.2	236.2	255.1	287.4	-13.7	-9.4
Iron and steel	251.1	173.0	189.7	151.1	153.8	187.3	119.9	136.0	-39.3	-37.7
Non-metalic mineral manufactures	46.6	66.7	77.1	70.9	72.8	92.9	101.5	113.7	-4.0	-2.5
Metal ores and scrap	37.4	41.0	46.7	47.2	43.6	52.9	46.0	50.6	-5.0	-4.8
3.2 Consumer goods	557.6	646.7	886.4	846.7	903.2	901.5	1,042.3	1,180.9	66.2	73.4
3.21 Manufactured goods	327.7	404.4	527.4	516.6	538.4	590.5	648.6	715.2	7.1	11.4
Clothing	123.9	168.0	203.5	189.9	192.3	203.6	220.0	240.3	4.8	5.6
Footwear	120.6	149.1	191.4	182.3	202.1	224.0	250.0	276.0	0.5	2.9
Furniture	83.2	87.3	132.5	144.4	144.0	162.9	178.6	198.9	1.6	2.9
3.22 Food	164.6	156.9	255.7	245.1	264.3	213.3	284.1	328.3	51.0	53.7
Meat and meat products	89.1	118.0	155.6	156.5	191.6	170.2	186.7	205.4	11.1	11.9
Corn	60.9	23.0	78.7	69.5	50.1	19.5	70.6	93.4	34.2	41.1
Fish and fish preparations	14.6	15.9	21.4	19.1	22.6	23.6	26.8	29.5	0.4	0.7
3.23 Beverages and tobacco	65.3	85.4	103.3	85.0	100.5	97.7	109.6	137.4	7.0	8.3
Beverages	30.3	25.5	31.0	34.9	38.2	44.8	48.7	62.3	0.1	1.0
Tobacco	35.0	59.9	72.3	50.1	62.3	52.9	60.9	75.1	6.7	7.3
3.3 Machinery and transportation equipment	733.8	940.6	1,180.6	1,416.5	1,475.4	1,579.1	1,737.2	1,940.3	39.1	50.7
Machinery other than electrical	155.6	222.4	351.7	466.8	446.0	570.2	592.6	657.6	-29.3	-23.5
Electrical machinery	251.9	289.9	343.0	378.2	397.7	472.4	495.2	552.1	-17.8	-13.3
Ships	205.8	250.4	248.6	349.5	347.8	240.3	345.0	365.3	85.7	89.3
Other transport equipment	120.5	177.9	237.3	222.0	283.9	296.7	304.4	365.3	-5.5	-1.8
3.4 Other merchandise	695.2	716.8	819.1	917.3	1,052.5	1,307.7	1,684.4	2,042.0	33.7	93.1

Table 4. Yugoslavia: Annual Rate of Percentage Change in Export Earnings From Previous Year

	1975	1976	1977	1978	1979	1980	1981
Total earnings	13.2	19.5	8.6	7.7	10.6	13.3	14.0
1. Workers and Immigrants' remittances	28.4	12.6	17.5	10.6	11.6	11.7	15.0
2. Travel	8.7	4.7	7.1	17.6	-2.0	14.0	9.1
3. Total exports	6.0	26.0	5.0	4.6	13.0	14.0	14.4
3.1 Raw materials and semi-manufactures	-10.8	27.5	-6.3	-3.6	19.0	4.4	11.8
3.11 Nonferrous metal	-18.6	8.8	-21.1	-3.3	14.3	20.5	14.5
Aluminum and aluminum processed	6.6	25.5	-5.1	2.3	13.9	17.0	23.8
Copper and copper processed	-40.7	17.3	-46.4	-14.0	8.3	28.1	5.4
Other nonferrous metals	0	-22.1	-4.1	-2.9	20.9	21.0	14.9
3.12 Other raw materials and semi-manufactures	-7.3	34.9	-1.6	-3.7	20.2	0.5	11.3
Lumber, wood and cork manufactures	-20.0	80.2	16.9	-17.1	16.1	13.6	10.4
Textiles	0.3	44.5	-6.4	-0.4	17.3	3.0	8.9
Metal manufactures	31.1	18.9	-3.0	12.6	25.5	8.0	12.0
Iron and steel	-31.1	9.7	-20.3	1.8	21.8	-36.0	13.4
Non-metalic mineral manufactures	43.3	15.6	-8.0	2.7	27.5	9.3	12.0
Metal ores and scrap	9.6	13.8	1.1	-7.6	21.4	-13.0	10.0
3.2 Consumer goods	16.0	37.1	-4.5	6.7	-0.2	15.6	13.3
3.21 Manufactured goods	23.4	30.4	-2.0	4.2	9.7	9.8	10.3
Clothing	35.6	21.1	-6.7	1.2	5.9	8.0	9.2
Footwear	23.6	28.4	-4.7	10.8	10.8	11.6	10.4
Furniture	5.0	51.8	8.9	-0.2	13.1	9.6	11.4
3.22 Food	-4.7	63.0	-4.1	7.8	-19.3	33.2	15.6
Meat and meat products	32.5	31.9	0.6	22.4	-11.2	9.7	10.0
Corn	-62.3	242.6	-11.8	-27.9	-61.0	261.3	32.2
Fish and fish preparations	8.6	34.6	-10.8	18.4	4.6	13.4	10.0
3.23 Beverages and tobacco	30.8	21.0	-17.7	18.2	-2.8	12.2	25.4
Beverages	-15.9	21.4	12.7	9.3	17.2	8.7	28.0
Tobacco	71.0	20.8	-30.8	24.4	-15.0	15.0	23.3
3.33 Machinery and transportation equipment	28.2	25.5	20.0	4.2	7.1	10.0	10.7
Machinery other than electrical	42.9	58.1	32.8	-4.5	27.8	3.9	11.0
Electrical machinery	15.1	18.3	10.3	5.2	18.8	4.8	11.5
Ships	21.7	-0.7	40.6	-0.5	-30.9	43.6	5.9
Other transport equipment	47.7	33.4	-6.4	27.9	4.3	2.8	13.9
3.4 Other merchandise	3.1	14.3	12.0	14.7	24.2	28.8	21.2

of Yugoslavia's "cooperation agreements" with some of its trading partners, which permit exports, chiefly of metals and chemicals, sold in advance for the next few years for credits payable to Yugoslav exporters.

Earnings from workers' remittances have grown rapidly in recent years, but the shortfall in 1979 (SDR 22 million) was due to the rate of growth beginning to slacken from 1978, due to the return of emigrant workers to Yugoslavia. A recovery in the rate of growth of these earnings is not expected until 1981 when foreign demand for migrant workers should pick up.

The shortfall incurred in receipts from travel (SDR 42 million) was entirely due to the effects of the earthquake in April 1979. Following an 18 per cent increase in 1978, travel receipts are estimated to have declined by 2 per cent in 1979, but they are projected to recover in the post-shortfall period.

a. Merchandise exports

(1) Raw materials and semi-manufactures

While this group of products as a whole incurred an excess estimated at SDR 32 million, export shortfalls were experienced by several individual products, notably the nonferrous metals and wood and cork manufactures. The shortfalls were entirely due to volume factors for the metals and to both volume and price factors in the case of wood and cork manufactures. Table 5). Other products experienced export excesses resulting mainly from the anticipated slowdown in foreign demand, at least for 1980.

As a result of the fast pace of economic activity in Yugoslavia's main export markets, particularly in Italy and Germany, the export unit values of most products, and of the group as a whole, showed a rebound

Table 5. Yugoslavia: Value, Volume and Unit Value by Major Commodities

(1979 = 100)

	Value share in total exports in 1979 (In per cent)	1974	1975	1976	1977	1978	1979	1980	1981	Shortfall in per cent of level in shortfall year
		Calendar Years								
Value	75.1	63	67	86	89	91	100	114	128	1.6
1. Raw materials and semi-manufactures	27.4	82	73	93	87	84	100	104	122	-1.5 (excess)
1.1 Non-ferrous metals	5.4	129	105	115	90	37	100	120	138	5.3
Aluminum and aluminum processed	2.7	68	72	90	86	38	100	117	145	5.1
Copper and copper processed	1.2	288	171	200	107	92	100	128	135	11.2
Other non-ferrous metals	1.4	114	114	89	85	83	100	121	138	3.4
1.2 Other raw materials and semi-manufactures	22.1	70	65	88	86	83	100	101	111	-4.4 (excess)
Lumber, wood and cork manufactures	6.2	62	49	89	104	86	100	114	125	5.0
Textiles	5.0	63	63	91	86	85	100	103	112	-3.3 (excess)
Metal manufactures	4.5	47	61	73	71	80	100	108	122	-5.6 (excess)
Iron and steel	3.6	134	92	101	81	82	100	64	73	-20.9 (excess)
Non-metallic mineral manufactures	1.8	50	72	83	76	78	100	109	122	-4.4 (excess)
Metal ores and scrap	1.0	71	78	88	89	82	100	87	96	-9.4 (excess)
2. Consumer goods	17.2	62	72	98	94	100	100	116	121	7.3
2.1 Manufactured goods	11.3	55	68	89	87	91	100	110	121	1.2
Clothing	3.9	61	83	100	93	94	100	108	118	2.4
Footwear	4.3	54	67	85	81	91	100	112	123	0.2
Furniture	3.1	51	54	81	89	88	100	110	122	1.0
2.2 Food	4.1	77	74	120	115	124	100	133	154	23.9
Meat and meat products	3.2	52	69	91	92	113	100	110	121	6.5
Corn	0.4	312	118	404	356	257	100	362	479	175.5
Fish and fish products	0.4	62	67	91	81	96	100	114	125	1.9
2.3 Beverages and tobacco	1.9	67	87	106	87	103	100	112	141	7.1
Beverages	0.9	68	57	69	78	85	100	109	139	0.1
Tobacco	1.0	66	113	137	95	118	100	115	142	12.8
3. Machinery and transportation equipment	30.4	46	59	74	89	94	100	110	122	2.3
Machinery other than electrical	10.9	27	39	62	82	78	100	104	115	-5.2 (excess)
Electrical machinery	9.0	53	61	73	80	84	100	105	117	-3.8 (excess)
Ships	4.6	86	104	103	145	145	100	144	152	35.7
Other transport equipment	6.0	38	57	76	71	96	100	102	116	-4.2 (excess)
Volume		99	92	111	105	101	100	106	116	5.8
1. Raw materials and semi-manufactures		107	91	108	95	93	100	98	104	-2.1 (excess)
1.1 Non-ferrous metals		146	141	152	106	102	100	109	121	7.3
Aluminum and aluminum processed		96	106	119	95	95	100	110	128	4.9
Copper and copper processed		225	225	272	131	118	100	110	116	14.6
Other non-ferrous metals		119	137	116	106	100	100	115	124	8.6
1.2 Other raw materials and semi-manufactures		97	79	97	93	91	100	95	99	-4.5 (excess)
Lumber, wood and cork manufactures		76	67	98	104	89	100	107	112	2.0
Textiles		65	60	99	90	92	100	100	104	-2.9 (excess)
Metal manufactures		74	87	71	83	91	100	100	104	-4.7 (excess)
Iron and Steel		207	99	120	88	99	100	60	66	-9.2 (excess)
Non-metallic mineral manufactures		70	80	107	93	83	100	105	110	-2.2 (excess)
Metal ores and scrap		151	125	105	97	83	100	83	87	-10.3 (excess)
2. Consumer goods		103	92	135	119	116	100	126	145	20.3
2.1 Manufactured goods		77	88	105	98	99	100	104	108	1.8
Clothing		75	92	108	100	100	100	104	108	2.4
Footwear		82	97	106	97	101	100	106	111	2.9
Furniture		72	70	98	99	93	100	102	105	-0.4 (excess)
2.2 Food		181	101	231	185	161	100	197	263	72.8
Meat and meat products		64	97	100	97	125	100	117	123	11.6
Corn		1329	173	1530	1085	559	100	1000	1667	532.4
Fish and fish products		76	74	100	78	91	100	109	115	-2.2 (excess)
2.3 Beverages and tobacco		93	103	110	101	124	100	101	106	5.9
Beverages		91	76	92	107	111	100	104	109	6.1
Tobacco		96	126	126	97	135	100	98	102	5.5
3. Machinery and transportation equipment		90	93	101	105	99	100	103	112	3.7
Machinery other than electrical		48	54	73	86	91	100	100	104	-4.0 (excess)
Electrical machinery		78	82	89	92	88	100	100	110	-2.4 (excess)
Ships		235	207	185	184	135	100	133	134	34.6
Other transport equipment		75	93	107	97	102	100	92	115	0.8
Unit Value		63	73	78	85	91	100	107	110	-1.9 (excess)
1. Raw materials and semi-manufactures		77	80	86	92	90	100	106	117	0.5
1.1 Non-ferrous metals		89	75	75	85	86	100	108	114	-2.0 (excess)
Aluminum and aluminum processed		70	68	76	90	92	100	106	113	0
Copper and copper processed		99	76	74	82	78	100	116	116	-2.9 (excess)
Other non-ferrous metals		96	83	77	80	82	100	105	112	-4.8 (excess)
1.2 Other raw materials and semi-manufactures		72	83	90	93	91	100	106	112	0.1
Lumber, wood and cork manufactures		81	73	91	100	96	100	107	112	2.9
Textiles		97	105	92	95	93	100	103	108	-0.2 (excess)
Metal manufactures		64	71	103	85	88	100	108	117	-1.1 (excess)
Iron and steel		65	94	84	92	83	100	106	110	-2.2 (excess)
Non-metallic mineral manufactures		72	90	77	82	94	100	104	111	-2.2 (excess)
Metal ores and scrap		47	62	84	92	99	100	105	110	1.0
2. Consumer goods		60	78	73	79	86	100	92	91	-10.7 (excess)
2.1 Manufactured goods		72	78	85	89	93	100	105	112	-0.6 (excess)
Clothing		81	90	92	93	94	100	104	109	-0.1 (excess)
Footwear		66	69	80	84	89	100	105	111	-2.6 (excess)
Furniture		71	77	83	89	95	100	108	117	1.4
2.2 Food		43	73	52	62	77	100	68	59	-28.3 (excess)
Meat and meat products		81	72	91	95	90	100	94	98	-4.6 (excess)
Corn		23	68	26	33	46	100	36	29	-56.4 (excess)
Fish and fish products		81	91	91	103	105	100	104	108	4.2
2.3 Beverages and tobacco		72	85	96	86	83	100	112	133	1.2
Beverages		74	75	75	73	77	100	104	127	-5.7 (excess)
Tobacco		69	90	109	98	87	100	118	139	6.9
3. Machinery and transportation equipment		51	63	73	85	95	100	106	108	-1.6 (excess)
Machinery other than electrical		57	72	85	95	86	100	104	111	-1.2 (excess)
Electrical machinery		69	75	82	87	96	100	105	106	-1.4 (excess)
Ships		36	50	56	79	107	100	108	114	0.8
Other transport equipment		51	61	71	73	94	100	111	102	-5.0 (excess)

in 1979 from the depressed level of 1978. The volume of exports also increased except for aluminum and copper, where export supply was constrained by capacity limitations. These constraints, which were partly due to a delay in completing planned expansion projects, are expected to be eased with the completion of these projects by June 1980.

Copper exports remained stagnant in 1979 because of inadequate supply, but new output is expected to come on stream soon. On this basis, a recovery in the volume of exports by 8 per cent, on the average, is forecast for 1980-81, and the projection is supported by contracts already concluded.

The demand for aluminum products is high at present and market prices are favorable to producers. Based on orders already received, the volume of exports is forecast to increase by 12 per cent on the average during 1980-81.

Exports of other nonferrous metals (lead, zinc and silver) have declined since 1975 due largely to capacity limitations. Production is now being augmented, which should facilitate a recovery in the volume of exports to about the level reached in 1975-76.

Following an 18 per cent decline in 1978, the aggregate value of lumber, wood and cork manufactures recovered by 12 per cent in 1979 and is expected to increase further, by 14 per cent in 1980 and by 10 per cent in 1981. The projected value increases reflect higher volumes and prices in contracts already negotiated.

The prices of iron and steel products were depressed during 1978 and the first half of 1979 due to a weak foreign demand, which in turn led to a stagnation in the volume of exports. Because of the anticipated slowdown in the economies of Yugoslavia's main export outlets, both export value and export volume are projected to decrease in 1980-81 as was the case during the 1974-75 recession. Weak foreign markets are also the cause of the calculated excesses of earnings from textiles, metal manufactures, non-metallic mineral manufactures, and metal ores and scrap.

(2) Consumer goods

The shortfall for ths group of products as a whole amounted to SDR 66 million, which was due to volume factors. While all the individual items in this group sustained shortfalls, the largest shortfall was that calculated for corn (SDR 34 million), followed by meat (SDR 11 million). The shortfall in corn exports was caused by the temporary decline in export volume due to crop failure. In the case of meat products, a 20 per cent decline in the volume of exports in the shortfall year was caused by a contraction of import demand by the EC; Yugoslavia's exports of baby beef to Italy were particularly affected.

The shortfalls in earnings from clothing and footwear exports were due to stagnation in the volume of exports, caused partly by access to the EC being limited by import quotas. An additional factor in the case of footwear was inadequate export credit facilities which rendered Yugoslav exports less competitive on world markets. A small shortfall in furniture exports (SDR 1 million) was caused by price factors.

Earnings from tobacco exports declined by about one fifth in the shortfall year, with the drop being concentrated in high quality tobacco, which accounts for the bulk of Yugoslavia's exports. The shortfall in earnings (SDR 6.7 million) was due to this volume drop as well as to prices in the shortfall year being lower than the medium-term trend.

(3) Machinery and transport equipment

Ships are the only commodity in this group which incurred a shortfall (SDR 86 million). World production of merchant vessels has been declining since 1975, the last year of peak production. From 1975 to 1978, world output declined by about two thirds. Yugoslavia's own production, which includes cargo, passenger, and river ships, as well as oil rigs, has followed a broadly similar pattern, with the tonnage exported in 1979 1979 representing less than half that exported in 1975. Because demand from developed Western countries has been low, Yugoslavia has redirected its ship exports partly to developing countries, and partly to the U.S.S.R. which accounted for half the tonnage exported in 1979. In volume terms, ship exports in the two post-shortfall years are projected to recover to the 1978 level. This recovery is based on contracts already concluded, and the projections may be exceeded if additional contracts for delivery in 1981 are concluded.

The export excesses calculated for electrical machinery and non-electrical machinery derive mostly from volume factors, which in turn, result from the projected lower foreign demand for these products in the post-shortfall years. For largely the same reason, other transport equipment also incurred an excess.

(4) Other merchandise

A shortfall of SDR 34 million is estimated for "other merchandise" which consist mostly of chemicals, fuels and lubricants. In 1979, export earnings increased by 24 per cent mainly because of the rise in crude oil prices. They are projected to increase at the same rate, on the average, during the two post-shortfall years; in addition to high oil prices assumed for that period, the volume of exports is expected to be larger, reflecting arrangements under cooperation agreements with trading partners.

b. Workers' remittances

Workers' remittances for the period from 1974 to 1979 have grown at an average rate of 16 per cent per year, and at an estimated value of SDR 2.6 billion in the latter year, they represented half of total merchandise exports. Germany has been the major host country for Yugoslav workers seeking employment abroad, and in 1979, remittances from that country accounted for about two thirds of total remittances. In both 1978 and 1979, receipts from workers' remittances increased less rapidly (11 per cent per annum), due mainly to the decline in numbers of workers employed abroad; this was the prime cause of the small shortfall of SDR 22 million estimated for 1979.

A number of reasons have been advanced to account for the fact that workers' remittances have remained buoyant despite the gradual decline in number of workers employed abroad. These include: (1) Yugoslav banks have made a great effort to stimulate the repatriation of savings by paying high interest rates to foreign exchange accounts and by opening up more branches in host countries; (2) returned workers have brought their accumulated savings with them; (3) the Yugoslav authorities have liberalized trade credit policies for foreign exchange reserves; and (4) the skill level and hence the average earnings of the workers is thought to have risen. Although the number of workers employed abroad declined from 1,100 thousand in 1974 to about 700-800 thousand in 1979, the number of returning workers has recently stabilized at about 10-20 thousand a year, and this number is not likely to change appreciably in the near future. These considerations and the expected rise in the rate of inflation have led to the forecast for 1980 that workers' remittances will continue to advance at about the same rate (12 per cent) as in the shortfall year, despite a slowdown in economic activity in the host countries. Based on an anticipated recovery in the Western European economies, these remittances are projected to increase at a slightly higher rate (15 per cent) in 1981.

c. Travel

Yugoslavia's income from travel (i.e., tourism) has increased steadily from SDR 0.6 billion in 1974 to SDR 0.9 billion in 1978, averaging a nominal rate of growth of 12 per cent per annum.

The leading sources of Yugoslavia's travel income have been Germany (40 per cent) and Austria (13 per cent). Changes in income have reflected more a change in the number of days spent by tourists in Yugoslavia than a change in the prices. Thus, the increase of 18 per cent in 1978 reflected solely a 20 per cent increase in the number of tourist days.

In 1979, the earthquake that affected parts of the Dalmatian Coast caused a 2 per cent decrease in travel income, giving rise to an estimated shortfall of SDR 42 million. Montenegro was particularly hard hit by the earthquake, and its loss of tourist earnings was probably in excess of 50 per cent. Since Montenegro accounts for about 8 per cent of foreign tourist receipts, the estimated decline in the number of tourist days for the country as a whole was 4 per cent. This estimate may prove to be conservative, as the adverse publicity following the earthquake undoubtedly discouraged tourists from visiting other parts of Yugoslavia. For 1980, travel income is expected to recover by 14 per cent, mostly as a result of an increase in the number of tourists. With only a relatively modest price increase assumed, it is believed that Yugoslavia's competitive position in the tourist sector will be enhanced. Following the expected recovery in 1980, a slightly lower rate of increase (9 per cent) is forecast for 1981.

4. Repurchase provisions

In accordance with paragraph 7 of the compensatory financing decision, the Yugoslav authorities are expected to indicate that they will make a prompt repurchase in respect of any outstanding part of this purchase if the amount purchased on the basis of partly estimated data (Section 2) exceeds the amount that could have been purchased on the basis of actual data for the entire shortfall year (calendar year 1979). The amount to be repurchased would be equivalent to the excess purchased by using partly estimated, rather than actual data, for the shortfall year.

5. Staff appraisal and proposed decision

Yugoslavia is expected to request a purchase equivalent to SDR 138.5 million under the compensatory financing facility in respect of a shortfall in aggregate earnings from merchandise exports, travel, and workers' remittances experienced during calendar year 1979. The amount of the proposed purchase is 27 per cent lower than the estimated shortfall of SDR 190 million, and is equivalent to 50 per cent of quota. If approved, it would raise the member's outstanding purchases under the facility to 100 per cent of quota.

The current account deficit in Yugoslavia's balance of payments widened sharply to SDR 2.5 billion in 1979. The increase in this deficit was caused by a larger trade deficit and a smaller than expected surplus in invisibles, due partly to the adverse effects of the earthquake in April 1979 on receipts from tourism. Net capital inflow was SDR 243 million more than in 1978, and the overall balance of payments registered a deficit of close to SDR 1 billion, compared with a surplus of SDR 268 million in 1978. Excluding compensatory borrowing, the overall balance of payments deficit in 1979 was about SDR 1.2 billion. Gross convertible international reserves had fallen from SDR 2.4 billion at the end of 1978 to SDR 1.4 billion at the end of 1979. The staff considers that the proposed purchase is compatible with Yugoslavia's balance of payments need.

The staff believes that Yugoslavia has been cooperating with the Fund in efforts to find appropriate solutions for its balance of payments difficulties, as is required under paragraph 3 of the compensatory financing decision. In May 1979 the Executive Board approved a one-year stand-by arrangement for the first credit tranche. In most respects the financial policies followed by the Yugoslav authorities in 1979 have been in line with the stabilization program devised by the authorities in early 1979. The economic performance, however, has been disappointing in some respects. In particular, the overheating of domestic demand has continued, inflation has accelerated, and the balance of payments has shown a much larger current account deficit than programmed. In response to these developments, the authorities gradually tightened policies in the course of 1979, and have indicated that they intend to follow significantly stronger stabilization policies in 1980. The authorities have remained in close contact with the Fund staff. In discussions during the Annual Meetings in October 1979, and more recently on the occasion of the mission to Belgrade to explore the possible use of the compensatory facility, the authorities reviewed with the staff the nature of the unexpected difficulties encountered in 1979, and measures already adopted and others planned for 1980 to cope with these difficulties. The request for a compensatory financing purchase is expected to include a statement that Yugoslavia will cooperate with the Fund in an effort to find, where required, appropriate solutions for its balance of payments difficulties.

The calculation of the shortfall supporting the proposed CF purchase is based on data covering workers' remittances and receipts from tourism, as well as merchandise exports. The staff is satisfied that the data on workers' remittances and travel are sufficiently reliable to be included in the calculation of the shortfall.

The aggregate value of merchandise exports and service receipts increased at an annual rate of 10 per cent from 1977-78 to the shortfall year, but growth is expected to accelerate to slightly more than 13 per cent in the two post-shortfall years. The shortfall in aggregate earnings is estimated at SDR 190 million, which is substantially above the proposed purchase of SDR 138.5 million. The shortfall in merchandise exports (SDR 125 million) accounts for most of the estimated shortfall in aggregate earnings. However, without the shortfalls for travel (SDR 42 million) and workers' remittances (SDR 22 million), the amount that could be purchased by the member would be less than the proposed amount.

Growth in merchandise exports in 1979 (at 13 per cent) was perhaps entirely related to higher prices. The volume of exports stagnated at about the 1978 level, partly reflecting continued strength in domestic demand. A number of special factors largely outside the control of the member were, however, primarily responsible for the export shortfall. The shortfall in ship exports, estimated at SDR 86 million, was caused by a 31 per cent drop in earnings in 1979 due to the depressed state of the world shipping market. The shortfall in corn exports (SDR 34 million) resulted from a poor harvest in late 1978. The shortfall in workers' remittances is related to the slackening in the growth rate of such remittances which began in 1978, due to the return of emigrant workers. In the case of travel, receipts were 2 per cent less in 1979 than in 1978 due to the effects of the earthquake in April 1978.

The staff considers that the request by Yugoslavia for a purchase of the equivalent of SDR 138.5 million under the compensatory financing facility decision meets all the requirements set forth in that decision. Accordingly, the following draft decision is proposed for adoption by the Executive Board, after a duly authenticated request has been received:

1. The Fund has received a request by the Government of Yugoslavia for a purchase of the equivalent of SDR 138.5 million under the Decision on Compensatory Financing of Export Fluctuations (Executive Board Decision No. 6224-(79/135), adopted August 2, 1979.

2. The Fund notes the representation of Yugoslavia and approves the purchase in accordance with the request.

3. The Fund waives the limitation in Article V, Section 3(b)(iii).

Yugoslavia: Fund Relations 1/

Quota:	SDR 277 million.
Use of Fund resources:	In the second quarter of 1979, Yugoslavia purchased the reserve tranche (SDR 61 million), the first credit tranche (SDR 69 million, under a stand-by arrangement granted in May 1979), and made a first purchase (SDR 138.5 million) under the CFF. Purchases totaling SDR 340.7 million were made under the oil facilities.
Fund holdings of Yugoslav dinars:	SDR 623.0 million or 224.9 per cent of quota.
Proposed purchase under the compensatory financing facility:	Equivalent to SDR 138.5 million which would be the second purchase under the CFF and would raise the Fund's holdings of Yugoslav dinars to SDR 761.5 million or 279.4 per cent of quota.
SDR position:	SDR 69.5 million, equivalent to 126.9 per cent cumulative allocations, as of January 1, 1980.
Direct distribution of profits from gold sales:	Yugoslavia has received US$19.4 million in the direct distribution of profits from gold sales; US$6.5 million has been transferred to the Trust Fund.
Gold distribution:	Yugoslavia has acquired 132,887 ounces of fine gold in the gold distribution program.
Exchange rate system:	The authorities do not maintain the exchange rate of the dinar within announced margins and, therefore, all transacionts, with the exception of those affected under the procedures set forth for certain countries with which Yugoslavia has bilateral payments agreements, take place at a fluctuating exchange rate. However, the authorities intervene in the foreign exchange markets, when necessary, to ensure orderly conditions and to smooth out fluctuations in exchange rates. The buying and selling rates for the U.S. dollar in the foreign exchange market in Belgrade on December 21, 1979 were Din 19.105 and Din 19.162, respectively, per US$1. Rates are quoted for certain other currencies.

1/ As of December 31, 1979, unless otherwise stated.

OFFICIAL MESSAGE

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BOGOEV	NARODNABANKA	BELGRADE	YUGOSLAVIA
KOSTIC	FEDERAL SECRETARY FOR FINANCE	BELGRADE	YUGOSLAVIA

Special Instructions

Distribution

Reference your cable of January 21. My itinerary is as follows:

Leaving Washington on February 4 and arriving in Belgrade from Paris on Tuesday February 5 at 12.05 noon by Lufthansa 360.

Leaving Belgrade for Amsterdam on Saturday February 9 at 8.45 am by YAT 122.

Please have reservation made preferably in Hotel Intercontinental.

For topics to be discussed I would suggest two categories

a) Yugoslav economy: domestic and external developments, prospects and policies. The various possibilities to finance the balance of payments deficit in 1980.

b) general IMF matters; in particular the Substitution Account; the future policy concerning Fund's gold and the possible link between the two subjects.

And of course all other matters that you want to raise.

/C

MESSAGE MUST END HERE

Drafted by:

Department: OED

Date: January 24, 1980

~~H. O. Ruding~~ NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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- 2 -

Special Instructions

In view of the particular importance of abovementioned items, I do not know whether this schedule leaves time for me to visit a republic, province or place outside Belgrade. If so, I would have preference for short visit to Macedonia or Kosovo where I have never been. If however this is too time consuming, perhaps visit to part of Serbia could be envisaged.

Best regards.

RUDING

Distribution

MESSAGE MUST END HERE

Drafted by:

Department: OED

Date: January 24, 1980

H. O. Ruding

NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

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Special Instructions

ADDRESS

Governor Bogoev

National Bank of Yugoslavia

Belgrade

Yugoslavia

Thank you very much for your message. It was a most kind thought. I look forward to seeing you again in the near future.

Best wishes

Whittome

Distribution

MESSAGE MUST END HERE

Drafted by: LAWhittome

Department: European

Date: January 11, 1980

L.A. Whittome NAME (TYPE) SIGNATURE

NAME (TYPE) SIGNATURE

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No. of words: 2Mins Log: 507385 Route: WUI Operator: PD

SEC-17/OCR
9-2-76

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

January 15, 1980

Mr. Whittome

I shall call you today about my today's conversation with Mr.Bogoev concerning this telex.

With the Compliments of

H. O. Ruding

Executive Director

cc - Mr Tyler

CHECK SERVICE

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OFFICIAL MESSAGE

INTERNATIONAL MONETARY FUND

Washington, D.C. 20431

TIME RECEIVED

ADDRESS

BOGOEV NARODNABANKA BELGRADE YUGOSLAVIA

KOSTIC FEDERAL SECRETARY FOR FINANCE BELGRADE YUGOSLAVIA

Special Instructions

Re: possible drawings on IMF

Fund staff informed me of their contacts with National Bank of Yugoslavia concerning possibilities of linking any drawing in higher credit tranches to use of SFF funds.

I draw your attention to sizeable amount that is available if Yugoslavia would draw its full second and third credit tranche together with the maximum corresponding amount under SFF. This package would amount to 50 percent under credit tranches and 72.5 percent under SFF, together 122.5 percent of quota, that is SDR 339 million or approximately dollars 440 million.

Distribution

To avoid any misunderstanding I also draw your attention to fact that under present circumstances and Fund policies drawing under second plus third credit tranche does not, repeat not, lead to higher degree of policy conditionality than drawing under second tranche only.

Best regards.

RUDING

MESSAGE MUST END HERE

Drafted by:

Department: OED

Date: January 2, 1980

H. O. Ruding

NAME (TYPE)

SIGNATURE

NAME (TYPE)

SIGNATURE

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INTERFUND WSH

11868 YU NARBAN 11.1.1980 NR 767 H15.20

INTERFUND WASHINGTON DC

4 FOR MR. L.A WHITTOME, COUNCELLOR
WARMEST CONGRATULATIONS ON YOUR APPOINTMENT AS A COUNSELLOR AND
BEST WISHES FOR EVERY SUCCESS IN YOUR FUTURE ACTIVITIES.
REGARDS.
BOGOEV

NARODNABANKA JUGOSLAVIJE BEOGRAD

INTERFUND WSH

TEST NUMBER:

[X] CHECKS

[ ] DOES NOT CHECK, IT HAS BEEN SERVICED.

HS

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VIA ITT