May 19, 1983

MEMORANDUM FOR FILES

Subject: Meeting with Mr. Bajt

Mr. Petersen and I met with Mr. Aleksander Bajt of the Economic Institute of the Law Faculty, Ljubljana (Ekonomski Institut Pravne Fakultete) on May 17, 1983 at 8.00 a.m. Mr. Veličković of the National Bank of Yugoslavia and Mr. Rant of the National Bank of Slovenia also attended the meeting.

The Economic Institute, founded by Mr. Bajt 20 years ago, is a private institute which performs work on a contractual basis for clients which include the Federal Government and the Republic of Slovenia. A confidential monthly report on the Yugoslav economic situation is prepared for the Federal Executive Council, containing short articles as well as a description of recent trends based on seasonally adjusted monthly data (Privredna Kretanja Jugoslavije). He provided a copy of an article from the March 1983 monthly report that employs input-output relationships to estimate optimum quantities of imports in 1983.

He briefly described the research activities of his institute and provided copies of various studies. A quarterly econometric model of the Yugoslav economy has evolved from the doctoral work of Jože Mencinger at the University of Pennsylvania. The core of the model used for policy simulation comprises 25 equations, and is part of a 120-equation model in the Keynesian tradition. (Later the same day Mr. Gaspari of the National Bank of Slovenia mentioned that he and others in the Bank's Research Department were working on a financial sector of this model. He provided computer printouts of seasonally adjusted monthly series on various monetary aggregates.) The Economic Institute also works in collaboration with the World Bank on the Computable General Equilibrium (CGE) model of Robinson et al. of the Bank.

In his policy advice Mr. Bajt has advocated significant roles for real interest rates and the exchange rate. His institute's work suggests that the lagged effects of devaluation may extend over perhaps six quarters, with the largest incremental impact occurring in the third quarter. In the fall of 1982 Mr. Bajt argued, partly on the basis of results from the CGE model, that a depreciation of 36-38 per cent (i.e., 27 per cent decline in the value of the dinar) was needed, as opposed to the actual depreciation of 20 per cent. He thought that export performance, while not yet as good as expected, would have been much worse without the recent devaluations. He tended to downplay the significance of import shortages in inhibiting export supply, although such shortages would not readily be picked up in his models. To cope with rising unemployment and external constraints, he has recommended shifting the structure of production for the home market toward less import-intensive, more labor-intensive, sectors.

Wayne Lewis

Wayne Lewis

MEMO FOR FILES

Subject: Meeting at National Bank of Yugoslavia
May 11, 1983 - 8 a.m.

Mr. Mentre held a meeting with Mr. Korošec, Vice Governor of the National Bank of Yugoslavia, also attended by Mrs. Hofmann and Mr. Veličković of the National Bank and by Mr. Petersen and myself. The purpose of the meeting was to discuss the status of efforts to obtain the necessary waivers of the negative pledge clauses which would permit the release of the remaining $200 million credit from the BIS. (The BIS credit of $500 million was offered on April 21 and accepted on April 22, and $300 million was drawn soon thereafter.)

This note supplements the information contained in Mr. Mentre's telex of May 9, 1983. There were now two problems remaining to be solved before the remaining $200 million could be drawn. First, the French continued to withhold a satisfactory waiver of the negative pledge clause until the question of excluding the 1981 loan of $150 million from the exposure base was resolved. Not wishing to upset the delicate negotiations being conducted by the International Coordinating Committee of commercial banks, the Yugoslavs had awaited a letter from the French Treasury with language and arguments to the effect that this loan should be regarded as government-related and thus be excluded from the exposure base as "otherwise protected". Following such a statement from the Yugoslav authorities, which in fact had been prepared on May 10 and telexed to French banks, the Yugoslav embassy in Washington and the New York banks, the French banks would reconvene and formally decide to grant the waiver. He claimed that such a statement did not necessarily settle the issue as to whether the $150 million should be included in the exposure base. Peat, Marwick representatives presently in Belgrade would be informed of the Yugoslav statement today (May 11). Mr. Korošec added that it was now expected that the medium-term facility would be formally offered on May 15 and the short-term facility on May 20. For purposes of the BIS loan, the problem of the French banks could now be considered resolved.

Second, the Yugoslav authorities had made a number of efforts to obtain the necessary waivers from all creditors in the Kuwaiti syndicate but as was known, there was at least one hold-out of a bank in Bahrain. As a last resort, the Yugoslavs were now approaching the Kuwaiti Government through diplomatic channels, meaning that Mr. Smole had contacted the Ambassador to Kuwait and a memo to the Kuwaiti authorities had been prepared which would be acted upon this week or next week in the Cabinet. Apparently one of the difficulties in obtaining the necessary waiver stemmed from the existence of arrears of the PBZ dating back to May, September, and November 1982. Although the PBZ was not a direct debtor of the Al-Bahraini Bank (?), bonds had been sold on the London market by a Hungarian bank. Arrears totalling $7 million had been settled, of which the bank in Bahrain accounted for $0.7 million. This was cleared in early April through the intervention of the National Bank of Yugoslavia. Another complicating factor appeared to have been the exclusion of the Kuwaitis from the list of those invited to the Zurich meeting in January.

Mr. Mentre suggested that, if these diplomatic efforts did not succeed, further efforts could be undertaken through interventions by the IMF Executive Director for Kuwait or by the Managing Director if the Yugoslav authorities would find this helpful. Mr, Korošec concurred that these channels could be turned to as a last resort but because of the delicacy of the current diplomatic effort requested that no further actions be taken regarding the Kuwait waiver problem until at least May 18, by which time the Kuwaiti Government would have reached a decision.

W. Lewis
May 16, 1983

INTERNATIONAL MONETARY FUND

Yugoslavia: Staff Visit

Minutes of Meeting

Held on May 10, 1983 at 3.45 p.m.

Yugoslav representatives	IMF representative
Mr. Makić, Governor, National Bank of Yugoslavia Mr. Veljković, Deputy Governor, National Bank of Yugoslavia Mrs. Hofmann, National Bank of Yugoslavia	Mr. P. Mentre

I met on May 10 from 3.45 p.m. to 4.45 p.m., Mr. Makić, Governor of the National Bank, who was assisted by Mr. Veljković, Deputy Governor, and Mrs. Hofmann. I made a summing-up of the discussions I just had with Mr. Florjancic and we discussed in more detail credit policy, interest rates, and exchange rate.

1. Credit policy

I stressed that we had many difficulties with the present stance of credit policy (discrepancy between the net domestic assets figures from the liabilities side and from the assets side; use of foreign exchange accounts which should be offset by adjustment of the net domestic assets ceiling; and inter-enterprises credits).

Mr. Makić agreed on the too-rapid increase in quasi-money and in inter-enterprises credits and expressed the hope that the commitment in the letter of intent to reduce by Din 50 billion inter-enterprises credits would be effectively implemented. He stressed that there was on the whole an excess in collective consumption. As far as credit policy to enterprises was concerned, he thought that on the contrary, the policy was too severe and was leading to disruptions, affecting notably export-oriented industries. The very concept of net domestic assets calculated on the liabilities side was not consistent with the requirements of the Yugoslav economy. It was agreed that we would discuss the matter further, on the basis of our findings in our discussions with banks and enterprises in Belgrade, Zagreb, and possibly Ljubljana. Mr. Makić said that he thought that we should abandon the net domestic assets concept, provided that the National Bank of Yugoslavia adhered to money supply targets and to credit ceilings.

Answering a question by Mr. Veljković, I said that it had been judged in Washington that there was no scope for any loosening of the present credit stance, which meant that suppliers' credits should remain included within the NDA ceilings. It would be up to the National Bank to reallocate net domestic asset and credit ceilings between individual banks if needed. Mr. Veljković took note of this position but said that he would re-open the issue in June.

2. Interest rates

I stressed that in view of recent developments in inflation, the structure of interest rates agreed upon at the beginning of the year was no longer adequate. There was a need for an additional adjustment by at least 5 per cent and for the rapid implementation of a comprehensive minimum bank lending rate.

Mr. Makić disagreed totally, stressing that present interest rates, imposed on the world by the U.S. monetary policy, were totally unsound, as exemplified in Yugoslavia by the difficulties of export-oriented industries. If the Fund were continuing to stress the importance of positive real interest rates, he would recommend actions aiming at direct reduction of inflation rather than any increase in interest rates.

3. Exchange rate

I stressed that in accordance with our agreement at the beginning of the year, we would have to re-assess exchange rate developments presently contemplated for the second half of the year. Mr. Makić took note of this position while again stressing the adverse effects on the cost and availability of imports for export-oriented industries of a too-rapid depreciation of the dinar.

INTERNATIONAL MONETARY FUND

Yugoslavia: Staff Visit

Minutes of Meeting

Held on May 10, 1983 at 1.30 p.m.

Yugoslav representatives	IMF representatives
Mr. Florjancic, Federal Secretary for Finance	Mr. P. Mentre
Mr. Popović, Assistant Federal Secretary for Finance	
Mr. Novoselac, Federal Secretariat for Finance	
Mrs. Hofmann, National Bank of Yugoslavia	

I met on May 10 with Mr. Florjancic, the Federal Secretary for Finance, and his associates from 1.30 - 3.30 p.m.

I gave Mr. Florjancic the letter signed by Mr. Whittome on May 5 which was based on previous discussions in Washington. We agreed, in the following discussion, to cover the balance of payments prospects for 1983, the policy measures to be implemented, and the 1984 outlook.

1. The 1983 balance of payments

I said to Mr. Florjancic that, due to a lower projection for tourist receipts, we were now comtemplating a current account deficit of $0.8 billion in 1983 (against -$0.5 billion contemplated in the original program). In addition, disbursements under the Berne Government package will probably be in the vicinity of $550 million against $850 million initially contemplated. Finally, the banks' loan of new money will be limited to $600 million without any addition to cover arrears repayments.

It meant that instead of an increase of reserves by $0.8 billion in 1983, we were now contemplating a decline or at best a near stability, which implied that the foreign exchange situation would remain tight throughout the year and that 1984 would start with an inadequate level of reserves.

Mr. Florjancic said that his estimates were more positive on tourism than ours, in view of the results of the first quarter and of the promotion underway. For the time being, Yugoslavia still expects disbursements from governments in the vicinity of $850 million in 1983 ($67 million in the first quarter and $308 million in the second quarter are already registered).1/ But he concurred with the view that the situation would remain very tight.

Mr. Popović explained that in view of delays attributable to banks and not to the Yugoslav authorities, the deadline of end-June for the banks' loan might not be met,, which would create difficulties such as the need to extend the standstill period; the Yugoslav authorities were waiting for a draft agreement to be submitted by banks on May 15. It was hoped that negotiations underway with governments and banks in Kuwait and France (Mr. Smole was presently in Paris for the OECD meeting) would be successful before the end of May,

1/ According to Mr. Florjancic, negotiations have been nearly finalized with the following countries: USA, UK, Germany, Austria, Switzerland, Belgium, Netherlands, and Italy. There were remaining difficulties with Scandinavian countries and France (for a part of the package - $83 million).

allowing the release of the $200 million BIS credit.

2. Policy measures

I summarized the policy measures recommended by the May 5 letter, based on these additional constraints and on slippages which have occurred in early 1983: fiscal policy (freeze of excess revenues, coverage of revenues under the proposed limits, solidarity loan); wage policy (a ceiling for nominal personal incomes over the second half of the year); credit policy (inter-enterprises credits); interest rates; foreign exchange allocation and exchange rate. I added that there was a need to review the administered prices in view of the higher than expected rate of inflation.

Mr. Florjancic thanked Mr. Whittome for having expressed his views in a written document. He had already reported to the Federal Government his discussions in Washington, the outcome of which had been approved. He had been asked by the Federal Government to prepare a complete analysis and to recommend the additional measures which might be warranted. The report would have to be finalized before the end of May to enable the Government to make proposals to the Federal Assembly, and there should be a clear picture of 1983 and 1984 at the start of the Fund's mission at the end of May.

I stressed that initial reactions by the Yugoslav Government would be most helpful at this stage. We agreed that after a detailed study of the May 5 letter, we would hold a meeting with Mr. Dragan on Wednesday, May 18 or Thursday, May 19.

3. <u>Outlook for 1984</u>

I stressed that Yugoslavia would face again a very difficult year in 1984. Mr. Florjancic concurred with this view, although the outlook for 1984 would be dependent upon the policy actions in 1983. He was looking forward to a new arrangement with the Fund in 1984-85. I said that the Managing Director might want to know better how well the 1983 program was proceeding before contemplating any further arrangement. Mr. Florjancic stressed the importance the Yugoslav authorities were attaching to the visit of Mr. de Larossiere who would be able to meet the most important officials in the Government.

MEMO FOR FILES

Subject: Meeting in the Federal Statistical Office

Mr. Petersen and I met this afternoon with Mr. Marković, Deputy Director of the Federal Statistical Office, and his associates to discuss three requests from our side. First, monthly series from 1977 to date as listed in the April 8 telex to Mrs. Hofmann, point 2.g, were promised for our arrival for the mid-year review on May 30. Second, the Director of the International Division indicated that the IMF was on the mailing list for an airmail subscription to Saopštenje and thought that these statistical reports were being sent to Mr. Dannemann in the Bureau of Statistics. She promised to look into the matter and I said that I would check whether in fact the Saopštenje were being received in the Fund. They appeared willing in any event to ensure that the Fund would receive all issues of Saopštenje as they are released.

Third, the question of the appropriate valuation of foreign trade data was raised and Mr. Markovič explained that there was every willingness in the Federal Statistical Office to process the three parallel sets of foreign trade data planned for 1983 (based on annual statistical exchange rates, monthly exchange rates, and daily exchange rates) but the inadequacy of their computer had so far kept them from progressing to the use of monthly and daily rates for converting trade data from the currency of invoice. He hoped that the computer of the Statistical Office of the Republic of Serbia could be used for this purpose, beginning perhaps in June or July.

It was pointed out that trade data (e.g., for 1981) have sometimes been recalculated on the basis of a revised set of statistical exchange rates, suggesting that for some historical periods there exist, at least implicitly, data on the currency composition of merchandise exports and imports. However, Mr. Marković indicated that the Federal Statistical Office did not have such statistics.

W. Lewis
May 10, 1983

INTERNATIONAL MONETARY FUND

Yugoslavia: Staff Visit

Minutes of Meeting

Held at Social Accounting Service
on Tuesday, May 10, 1983 at 11 a.m.

Yugoslav representatives	IMF representatives
Mr. Lapčović, Social Accounting Service	Mr. W. Lewis
Mrs. Hofmann, National Bank of Yugoslavia	Mr. A. Petersen
Mr. Veličković, National Bank of Yugoslavia	
Ms. Djurdević, Interpretor	

After the usual exchange of courtesies, Mr. Lewis noted that the Social Accounting Service (SDK) was taking on increased responsibilities in several fields, notably as regards the monitoring of public sector revenue, inter-enterprise credit, and social compacts on incomes policy. The work of the SDK would also be affected by amendments to the law on rehabilitation of enterprises and the changes to the priorities of payments of enterprises which was in progress. The mission would like to focus first on the freezing scheme for excess public sector revenues and in this respect would like to enquire whether the amounts to be frozen under the scheme for the first quarter had been set already.

Mr. Lapčović first commented on the freezing scheme for the first quarter of 1983, which, with certain exceptions, applied to budgetary revenues of socio-political communities (SPCs) and the revenue of self-management communities of interest (SMCIs) at the average quarterly level for 1982.

The SDK had determined the actual level of revenues for the first quarter by mid-April and excess revenue had already been frozen in special accounts; i.e., they could not be used for any purpose.

Budgetary revenues subject to freezing comprised those of republics, provinces and local governments (some 540 entities), excluding republican and provincial revenue earmarked for transfer to the budget of the Federation (Din 22.0 billion in the first quarter of 1983), and excluding revenue for payments having the characteristics of personal incomes (Din 1.2 billion in the first quarter of 1983). The latter exclusion comprised pensions, unemployment benefits, social welfare payments, etc., but not personal income payments for public employees. Thus, the budgetary revenue subject to freezing amounted to Din 33.5 billion in the first quarter of 1983, 82 per cent of the quarterly average for 1982, Din 41.0 billion. The Din 33.5 billion excluded Din 78.0 billion in transfers to the Federal Government and Din 4.0 billion in payments of the character of personal income. Although budgetary revenue in the first quarter of 1983 had in the aggregate been below the quarterly average for 1982, certain SPCs had been above, and as a result Din 0.656 billion had been frozen in blocked accounts with the SDK.

Turning to the revenues of the SMCIs (for collective consumption), Mr. Lapčović explained that actual revenues in the first quarter of 1983 had amounted to Din 70 billion, the same as the quarterly average for 1982 (again, with the exclusion of revenue for payments having the characteristics of personal income). However, some SMCIs had exceeded the quarterly average for 1982 and, as a result, Din 5.0 billion had been frozen in special accounts with the SDK. Total revenues in the first quarter of 1983 had amounted to Din 132.8 billion, the difference of Din 62.8 billion being due to payments for pensions, unemployment benefits, medical payments, scholarships, etc. The intention was that such transfers to households should increase in line with personal incomes. However, in the first quarter such payments had increased at a rate that was substantially below the growth of personal income. In 1982, collective consumption expenditure had amounted to Din 535 billion. Of this amount, Din 226 billion comprised payments with characteristics of personal income and of the Din 226.0 billion, Din 155.0 billion had been paid in the form of pensions.

Federal Government revenues were not subject to the freezing scheme. Direct federal revenues in 1982 had amounted to Din 117 billion or Din 29.3 billion on a quarterly average. Revenues in the first quarter of 1983 had amounted to Din 34.3 billion. Revenues for payments with the characteristics of personal income had amounted to Din 40.0 billion in 1982 or Din 10.0 billion on a quarterly average. Such revenues had amounted to slightly less than Din 11.0 billion in the first quarter of 1983 or in line with the budget prediction for such revenues of Din 45.0 billion.

After prolonged questioning, it was finally learned that the blocked accounts of the SPCs and SMCIs are kept with the commercial banks in most cases and in the cases of republican or provincial governments with the regional National Bank. In the current presentation of monetary statistics, they would form part of sight deposits and would not be singled out as blocked deposits. In principle, however, it should be possible to do so. Mr. Lapčović explained that it had been discussed whether such deposits should be placed with the National Bank of Yugoslavia, but as this would have entailed a change in the present banking practice it had been decided against such a scheme. He emphasized that through these accounts were presented as sight deposits, they were in effect blocked and could be used neither by the SPC/SMCI nor by the banks as a basis for extending credit.

Turning to an explanation of the freezing scheme for the first seven months of 1983, Mr. Lapčović explained that the revenues affected were the same as for the first quarter, that is, excluding the Federal Government and resources for payments with a character of personal income (transfer payments). Salaries of public sector employees would be included. Although the overall ceiling on revenue, 11 per cent for SPCs and 13 per cent for SMCIs, was set only for revenues of the seven months combined compared with the same period of 1982, the freezing scheme would be operated on a monthly basis. Each SPC and SMCI had budgeted a revenue plan for the first seven months of 1983, showing programmed revenues on a cumulative basis for April, May, June and July that would fulfill the target for the seven months as a whole. On the 10th day after the end of each of these months, it is to be determined how actual revenues compare with programmed revenues, and any excess would be frozen. Should cumulative revenues in following months fall below the programmed level, the frozen portion would be released to make up for the shortfall. In contrast with the freezing scheme which was applied in the first quarter of 1983 according to which each SPC and SMCI was subject to the same criteria, under the new scheme each republic or province could decide on the revenue growth of individual SPCs and SMCIs as long as on an aggregate basis all the SPCs in the region observed the 11 per cent ceiling for the first seven months and SMCIs observed the 13 per cent ceiling.

Several times Mr. Lapčović observed that although transfer payments were excluded from the formal freezing scheme, they were subject to the guideline that they should not exceed the average growth rate of personal incomes in the economy. In fact, he stated that the SDK would monitor this revenue element also and freeze any excess revenues should they materialize. However, he felt certain that such revenues would not exceed the ceiling since the problem was rather to obtain sufficient revenues for such transfer payments. In fact, during the first quarter the growth of such payments had been below that of personal income.

In reply to a question, Mr. Lapčović explained that after the first seven months of 1983, revenue growth would become subject to the original plan resolution which stated that revenues of SPCs and SMCIs should, at a maximum, grow at a rate of 10 per centage points below the growth of personal incomes. He stated that in principle the freezing scheme for the last five months would be implemented the same way as for the first seven months, i.e., monitored and applied on a monthly basis by the SDK.

Finally, the discussion turned briefly to the issue of inter-enterprise credits. Mr. Lapčović stated that an enterprise could only extend credit for the sale of goods and services and could only do so under one of two conditions: (1) the enterprise possessed sufficient liquid funds; or (2) the enterprise had bank guarantees that it would itself receive credit from a bank to finance the sale. Thus, inter-enterprise credit would often have an accompanying credit operation and one could not add the two figures without an element of double counting. He left the impression that sales on less than 90 days were not viewed as credit operations and were not subject to the above rules. It was agreed to discuss the subject in further detail in June on the basis of the questionnaire which had been handed to the National Bank the previous day.

MEMO FOR FILES

Subject: Meeting with Mr. Petrović

Mr. Petersen and I met with Mr. Petrović this morning to impress upon him the unqualified necessity of telexing to Washington the data on net domestic assets calculated from the liabilities side by Friday of this week in order that the drawing may proceed as scheduled on May 16. He elaborated on the explanation of difficulties given last week, noting that it had apparently been left unclear to the banks concerned where to record valuation adjustments in those cases where associated banks had borrowed from abroad and on-lent to domestic banks. Also, some banks had apparently failed to include the valuation adjustment in respect of some of the household deposits of foreign currency, all of which are swapped with the National Bank against dinars. Foreign currency deposits of households amounted to Din 548 billion at the end of February 1983: the counterpart foreign currency liabilities of the National Bank of Yugoslavia at the end of February were Din 519.8 billion. Mr. Petrović thought that the difference of Din 28 billion could be accounted for by the time lag between placement of deposits in the business bank and the transfer of this foreign currency to the National Bank.

W. Lewis
May 10, 1983

Mr. Whittome

MEMO FOR FILES

Subject: Meetings at the National Bank of Yugoslavia
May 9, 1983

Today I met with a succession of Yugoslav representatives who provided data and other material requested in our list of April 22, in many instances offering explanatory commentary.

Uniform criteria for foreign exchange allocation

Mr. Lončar of the Community of Interest for Foreign Economic Relations provided a copy of the technical instructions for implementing the uniform criteria for allocation of foreign exchange. He drew attention to the tables on pages 23 and 24 which, together with the relevant customs data on commodity imports of enterprises, would permit the necessary calculation of assumed foreign exchange needs for individual enterprises. The only group so far to have formally coalesced and decided on a retention ratio was the textile industry. It would retain 60 per cent of foreign exchange receipts (the maximum allowed after drawing off 5 per cent for the Federation's needs, 3 per cent for reserves, 17 per cent for energy imports, and 15 per cent for the use of republics and provinces). Of the retained foreign exchange, 20 per cent would accrue to manufacturers of ready-made clothes, 35 per cent to weaving mills, and 45 per cent to producers of fibers, the latter being heavily dependent on imports. Three other groups of enterprises which may be formed for the purpose of pooling foreign exchange receipts are: paper and wood products; tourism and agriculture; and shipbuilding and ferrous metallurgy. Mr. Lončar explained that if an enterprise did not join one of these groups or some other group it would be left to rely on the inter-bank market to procure the foreign exchange it needed. Also, if the foreign exchange receipts for a particular group of enterprises increased by more than 20 per cent from 1982 to 1983, the group would be permitted to retain 100 per cent of any foreign exchange in excess of the 20 per cent increase.

Public finance

Mr. Kolundžija provided public sector revenue data for the first quarter of 1983 as well as other data on the Federation Budget as requested. Referring to the data on revenue for collective consumption in 1982, he explained that the figure of Din 499.8 billion represented the amount collected by the Social Accounting Services (SDK) while Din 500.2 billion was the amount distributed by the SDK to the various communities of interest for collective consumption. Similarly, in Table 21 of the Statistical Bulletin of the SDK, the revenue total for socio-political communities in column 1 represented revenue collected, and the total in column 10 shows the amount distributed by the SDK to the various budgets of socio-political communities; differences were of minor importance. Of the Din 17.742 billion received in January 1983 but accruing to the 1982 budgets, most accrued to the budget of the Federation, the remainder to the Community of Interest for Foreign Economic Relations. This Community of Interest receives some 59 per cent of customs duties and should therefore properly be considered part of the public sector. On the other hand, the revenue category other than that for general and collective consumption comprises resources for communities of interest within the economic sector, for the most part deemed to be transfers within the economic sector. Such funds may help finance housing construction, railways, roads, etc. However, one component of this "other revenue," amounting to Din 19.62 billion in the first quarter of 1983, is earmarked for lending to under-developed regions and thus might arguably be regarded as public sector revenue. Required contributions from each republic and province for this purpose are the equivalent of 1.83 per cent of GSP in each republic and province, respectively. Laws at the republican and provincial level specify contribution rates of 3-4 per cent of enterprise income for those enterprises with incomes above certain levels. These rates of contribution may be adjusted up or down as required to fulfil the requirement of contributing 1.83 per cent of GSP for the entire republic (or province). The loans to under-developed regions thus financed are extended at an interest rate of 5-6 per cent per annum with 15 years maturity and a grace period of three years.

<u>Balance of payments, external debt, international reserves</u>

Mr. Smiljanic provided estimates of the quarterly distribution of the main items in the services account of the balance of payments, adding that there was little discernible seasonality to the residual category, other debits/other credits. The requested time series on external debt would be provided at a later time as would the quarterly breakdown of debt service for

1983 (data on quarterly debt service for 1984 were provided, based on the end-1982 foreign debt outstanding and undrawn balances). Similarly, the table on annual debt service for medium- and long-term external debt was estimated on the basis of debt including undrawn balances as of the end of 1982.

He also provided the following information on international reserves as of April 20, 1983:

	(In millions of U.S. dollars)
National Bank of Yugoslavia	
Gold	78
Bonds, other securities	138
Foreign exchange	536
of which: SDRs	(...)
Total of Nat. Bank of Yug.	752
Commercial banks	887
Total	1,639

The figure for the National Bank excludes the reserve position in the Fund, which in recent months has been some US$3 million.

Mr. Šarenac explained that the table on medium-term commercial debt falling due in 1983 mentioned in the list of requests in fact had not been promised and indeed was not available. Data on maturities would be released only after Peat, Marwick had completed the reconciliation of data from the debtor and creditor sides. Of particular concern to the Yugoslav coordinating group appeared to be an under-recording of the extent to which bank credits had been guaranteed by western export credit agencies.

He seemed to indicate that the preliminary data from the Yugoslavian banks might indicate medium- and long-term credits from commercial banks maturing in 1983 could amount to less than the estimate of US$1.4 billion.

Prices

Mr. Jovičič provided information on component weights for the retail price index and the cost of living. Noting that the weight of industrial products in the retail index was some 70 per cent, he suggested that the direct effect of a 1 per cent dinar depreciation might be an increase in the retail price index of perhaps 0.15 per cent. He added that a rule of thumb in the Federal Community of Prices was that prices at the green market would rise in response to a devaluation by about the percentage of the devaluation. He provided the following information on prices of electricity:

	Before 25% price	After increase
Bosnia-Hercegovina	1.92	2.40
Montenegro	1.85	2.31
Macedonia	2.07	2.59
Croatia	2.35	2.94
Slovenia	2.04	2.55
Serbia (proper)	1.61	2.01
Kosovo	1.91	2.39
Vojvodina	2.26	2.83
Yugoslavia	1.89	2.36

The low price for Serbia reflects the relatively high proportion of hydroelectric power.

The following ranges of producer prices for coal were provided, including those in effect before and after the recent 25 per cent price increase:

	Price of Coal (dinars per gigajoule)	
	Before	After
Stone coal/anthracite		
Minimum	132.48	165.60
Maximum	172.34	215.43
Brown coal		
Minimum	78.62	98.27
Maximum	164.10	205.12
Lignite		
Minimum	58.11	62.63
Maximum	161.89	202.36

Incomes

Mr. Pavlović of the Federal Secretariat for Labor provided monthly data on net personal incomes per employee for each of three levels of government (table attached).

According to data from the SDK, total payments of personal incomes averaged Din 79.046 million per month for the first quarter of 1983, 25 per cent higher than one year earlier, and 10.6 per cent less than the monthly average of Din 88.429 million per month in the fourth quarter of 1982. It may thus be concluded that enterprises adhered well to the Resolution that provided that personal incomes should be no higher in nominal terms in the first quarter of 1983 than in the fourth quarter of 1982. On average, real personal incomes are estimated to have declined by 8.8 per cent in the first quarter of 1983, compared with a year earlier, based on year-on-year increases of 34.1 per cent in the cost of living and 2.2 per cent in employment in the first quarter of 1983.

The incomes policy resolution in effect for the second quarter provides that funds allocated for net personal income and collective consumption should increase in line with net enterprise income. According to Mr. Pavlović, the annual Plan Resolution stated that personal incomes for social activities and noneconomic activities should rise more slowly than personal incomes in the economic sector, but it did not quantify the income growth differentials. Such quantitative targets in the draft Plan Resolution were dropped before its adoption. Various self-management agreements and social contracts indicated that personal income payments of banks, communities of interest, and socio-political communities should rise at a significantly lower rate than in the economic sector. For some republics this stipulation was not quantified but he promised to provide a copy of a resolution for at least one republic or province which did quantify the targeted income growth differential. In Slovenia, for example, personal income increases were to be linked to labor productivity, actual enterprise income, and increases in exports. The year-on-year increases in personal incomes paid out in the first quarter of 1983 (analog to the wage and salary bill) were 27 per cent for enterprises in the economic sector, 23 per cent for banks and financial organizations, 22 per cent for organizations of associated labor in social activities, 18 per cent in socio-political communities and 16 per cent in self-management communities of interest (health, education, cultural activity, etc.)

By the end of May, enterprise balance sheet data for the first quarter of 1983 would be available, as would exact data on net personal incomes per employee for January-March. These statistics would be processed and disseminated by the middle of June. In any event, the data on total payments of personal income and the estimated modest increase in employment indicated a virtual certainty that the incomes policy target of keeping per capita personal incomes in the first quarter of 1983 from rising above the fourth quarter of 1982 level had been achieved.

Table 1. Yugoslavia: Average Net Personal Incomes in Government Administration

(In dinars per employee per month)

	Federal Administration		Republican Administration		Provincial Administration	
	Din.	1981=100	Din.	1981=100	Din.	1981=100
1982						
January	15,115	111.3	12,500	106.4	12,058	108.5
February	16,354	120.4	12,932	110.1	12,169	102.5
March	18,865	138.9	14,082	119.9	13,230	119.1
April	19,720	145.2	15,398	131.1	15,544	139.9
May	18,574	136.8	14,326	122.0	13,966	125.7
June	18,256	134.4	14,913	127.0	13,325	119.9
July	18,477	136.0	15,054	128.2	13,856	124.7
August	17,291	127.3	14,495	123.4	14,462	130.2
September	17,584	129.5	14,988	127.6	13,712	123.4
October	17,620	129.7	15,722	133.5	13,943	125.5
November	18,862	138.5	16,150	137.5	17,919	161.5
December	23,926	176.2	18,027	153.5	16,679	150.1
Year (average)	18,391	135.4	14,879	126.7	14,221	128.0
1983	(dinars; 1982 = 100)					
January	18,405	100.1	15,203	102.2	15,089	106.1
February	19,522	106.1	15,392	103.4	15,410	108.4

EXCHANGE RATE CHANGES OF THE YUGOSLAV DINAR IN THE PERIOD FEBRUARY - MAY OF 1983.

(The end of period: jan. 31^{st} 1983=1oo)

	February	March	April	May	(01. Jun)
1. Nominal effective exchange rate 1)	1o8,2	113,9	118,8	123,o	123,9
- DM	1o9,o	115,3	118,8	121,5	122,2
- Lit	1o7,9	11o,8	115,o	117,6	118,1
- US $	1o8,2	114,3	119,8	125,3	126,5
- Asch	1o8,4	114,8	118,4	121,o	121,2
- FF	1o8,6	1o8,8	112,2	114,6	115,3
- Lstg	1o6,7	1o8,3	121,3	131,3	13o,9
- Sfrs	1o5,9	11o,1	116,o	119,5	12o,3
- Skr	1o7,7	112,8	119,o	123,9	124,4
- Hfl	1o8,6	112,7	116,5	119,3	119,8
- Bfrs/c	1o8,2	113,6	116,9	119,3	121,7
- Yen	1o8,8	113,4	119,7	124,7	126,8
2. Relative producer prices	1o1,9	1o3,o	1o4,7	1o7,1	
- W.Germany	1o1,8	1o2,8	1o4,9	1o7,2	
- Italy	1oo,7	1o1,3	1o2,6	1o4,4	
- U S A	1o2,1	1o3,5	1o5,2	1o7,8	
- Austria	1o2,1	1o1,9	1o2,3	1o4,7	
- France	1o1,4	1o2,1	1o3,5	1o4,4	
- G.Britain	1o1,2	1o1,6	1o3,o	1o4,8	
- Switzerland	1o2,1	1o3,2	1o5,3	1o7,7	
- Sweden	99,9	1oo,1	1o1,2	1o3,4	
- Netherland	1o2,1	1o3,5	1o5,6	1o8,2	
- Belgium	1o2,2	1o3,2	1o5,1	1o7,1	
- Japan	1o3,4	1o5,4	1o7,2	11o,o	
3. Real effective exchange rate (2:1) 2)	94,2	9o,4	88,1	87,1	86,4
- W.Germany	93,5	89,2	88,3	88,2	87,7
- Italy	1oo,o	91,4	89,2	88,8	88,4
- U S A	94,4	9o,5	87,8	86,o	85,2
- Austria	94,2	88,8	86,4	86,5	86,4
- France	93,3	93,8	92,2	91,1	9o,5
- G.Britain	94,7	93,7	84,9	79,8	8o,1
- Switzerland	96,5	93,8	9o,8	9o,1	89,5
- Sweden	92,7	88,6	86,9	83,4	83,1
- Netherland	93,9	91,8	9o,6	9o,7	9o,3
- Belgium	94,6	9o,9	89,9	89,8	88,o
- Japan	95,1	92,9	89,6	88,2	86,7

1) Nominal effective exchange rate is calculated on the basis of the share of given currencies in the foreign exchange transactions in 1981^{st},

2) Index number bellow "1oo" shows the degree of improvement of the price competitiveness.

Price figures according to the telex of IMF of may 13, 1983 and IMF Statistics april edition.

EXCHANGE RATE CHANGES OF THE YUGOSLAV DINAR IN THE PERIOD
JANUAR - MAY OF 1983.
(The end of period: dec. 31st 1982= 100)

	January	February	March	April	May	(01. Jun)
1. Nominal effective excange rates:	107,0	115,8	121,9	127,1	131,6	132,7
- DM	105,4	114,8	121,5	125,2	128,0	128,8
- Lit	105,8	114,1	117,2	121,6	124,4	125,0
- US $	108,4	117,2	123,9	129,8	135,8	137,2
- Asch	105,8	114,7	121,5	125,3	128,1	128,3
- FF	105,4	114,5	114,7	118,3	120,8	121,5
- Lstg	102,9	109,9	111,5	124,9	135,2	134,7
- Sfrs	108,3	114,8	119,3	125,7	129,5	130,3
- Skr	106,0	114,2	119,6	126,2	131,4	131,9
- Hfl	105,8	114,9	119,3	123,3	126,2	126,7
- Bfrs/c	105,6	114,2	119,9	123,4	125,9	128,4
- Yen	106,4	115,8	120,8	127,5	132,8	135,0
2. Producer prices in Yugoslavia	101,1	103,2	104,2	106,1	108,5	108,5
3. Producer prices abroad						
- W.Germany	100,3	100,6	100,5	100,3	100,3	
- Italy	101,0	102,4	102,9	103,3	103,8	
- USA	100,2	100,2	99,8	100,0	99,6	
- Austria	101,1	101,1	102,3	103,8	103,7	
- France	100,1	100,9	101,1	101,6	102,9	
- G.Britain	100,6	101,5	102,0	102,4	103,0	
- Switzerland	99,9	99,9	99,8	99,6	99,5	
- Sweden	104,0	106,3	107,1	107,9	107,9	
- Netherland	100,1	100,1	99,6	99,5	99,3	
- Belgium	100,1	100,0	100,0	100,0	100,3	
- Japan	99,7	98,4	97,5	97,6	97,2	
4. Relative producer prices (2:3)	100,8	102,6	103,8	105,5	108,0	
- W. Germany	100,8	102,6	103,7	105,8	108,2	
- Italy	100,1	100,8	101,3	102,7	104,5	
- USA	100,9	103,0	104,4	106,1	108,9	
- Austria	100,0	102,1	101,8	102,2	104,6	
- France	101,0	102,3	103,1	104,4	105,4	
- G.Briain	100,5	101,7	102,1	103,6	105,3	
- Switzerland	101,2	103,3	104,4	106,5	109,0	
- Sweden	97,2	97,1	97,3	98,3	100,5	
- Netherland	101,0	103,1	104,6	106,6	109,3	
- Belgium	101,0	103,2	104,2	106,1	108,2	
- Japan	101,4	104,9	106,9	108,7	111,6	
5. Real effective exchange rate (4:1)	94,2	88,6	85,1	83,0	82,1	81,4
- WGermany	95,6	89,4	85,3	84,5	84,5	84,0
- Italy	94,6	94,6	86,4	84,4	84,0	83,6
- USA	93,1	87,9	84,3	81,7	80,2	79,4
- Austria	94,5	89,0	83,8	81,6	81,6	81,5
- France	95,8	89,3	89,9	88,2	87,2	86,7
- G.Briain	97,7	92,5	91,6	82,9	77,9	78,2
- Switzerland	93,3	90,0	87,5	84,7	84,2	83,6
- Sweden	91,7	85,0	81,3	77,9	76,5	76,2
- Netherland	95,5	89,7	87,7	86,4	86,6	86,3
- Belgium	95,6	90,4	86,9	86,0	85,9	84,3
- Japan	95,3	90,6	88,5	85,2	84,0	82,7

Price figures according to the telex of IMF of may 13, 1983 and IMF Statistics
ril edition.

3. juna 1983. godine
B e o g r a d

NATIONAL BANK OF YUGOSLAVIA

MONTHLY FIGURES ON CHANGES IN EXCHANGE RATES FOR THE YUGOSLAV DINAR AND PRICE COMPETITIVENESS ACCORDING TO THE AGREEMENT REACHED ON THE TECHNICAL MEETING ON APRIL 2o, 1983. FOR MAY 1983.

1. EXCHANGE RATES FOR THE "BASKET" OF CURRENCIES AGAINST YUGOSLAV DINAR :

DM	3367,o717
Lit	5,6825
US $	84,8581
Asch	478,7881
FF	1121,9127
Lstg	137,o636
Sfrs	4o51,7231
Skr	1127,8685
Hfl	2997,7o34
Bfrs/c	168,7o45
Yen	35,5734

2. NOMINAL EFFECTIVE EXCHANGE RATES : 123,o
3. INDEX OF YUGOSLAV PRODUCER PRICES OF INDUSTRIAL PRODUCTS :1o7,3
4. RELATIVE PRODUCER PRICES : 1o7,1
5. REAL EFFECTIVE EXCHANGE RATE : 87,1

BELGRADE, JUNE o6, 1983

Who Are the New Ministers?

The Yugoslav government -- the Federal Executive Council -- will consist of 29 people, including the new prime minister. Of these 29 government members, 14 have been delegated by the 6 constituent republics (2 each) and the 2 autonomous provinces (1 each). Except for Mrs. Planinc, who will have the title of the country's prime minister, and three vice-premiers, all of the ten remaining ministers will bear only the title "members of the Federal Executive Council" without precise responsibility for individual posts. This responsibility will be allotted to them according to need, so that any one minister could be responsible now for one and now for another post (mostly commissions).

The 14 other members of the government have not been delegated by the individual republics and autonomous provinces (although the "nationality key" is also strictly observed here),but instead selected by the prime minister, following consultation with party and state agencies. All these 14 members of the government are designated "federal secretaries." Federal secretaries are responsible for specific posts, internal affairs, defense, or foreign policy.

Of the 29 members of Mrs. Planinc's new government, only 5 were members of the old government, headed by Veselin Djuranovic. The following are the names of all government members:

1. Milka Planinc, prime minister, Croat; 3 Vice Prem
5
2. Zvone Dragan, 43, vice-premier, Slovene;
3. Borislav Srebric, 55, vice-premier, Serb;
4. Dr. Mijat Sukovic, 52, vice-premier, Montenegrin;
5. Abdulah Mutapcic, 50, member of the FEC, Moslem;
6. Nedeljko Mandic, 46, member FEC, Serb;
7. Spasoje Medenica, 57, member FEC, Montenegrin;
8. Dr. Ivan Margan, 56, member FEC, Croat;
9. Dr. Rikard Stajner, 61, member FEC, Croat;
10. Stojan Matkalijev, 46, member FEC, Macedonian;
11. Boro Denkov, 45, member FEC, Macedonian;
12. Janko Smole, 61, member FEC, Slovene; was pushed out of LJ.
13. Zivorad Kovacevic, 52, member FEC, Serb;
14. Dimitrije Tasic, 51, member FEC, Serb;
15. Ion Srbovan, 52, member FEC, Romanian;
16. Admiral Branko Mamula, 61, Federal Secretary for National Defense, Croat;
17. Lazar Mojsov, 62, Federal Secretary for Foreign Affairs, Macedonian;
18. Stane Dolanc, 57, Federal Secretary for Internal Affairs, Slovene;

19. Dr. Milenko Bojanic, 58, Federal Secretary for Foreign Trade, Serb;
20. Borislav Krajina, 52, Federal Secretary for Justice and Public Administration, Croat;
21. Luka Reljic, 47, Federal Secretary for Market and General Economic Affairs, Serb;
22. Mitko Calovski, 52, Federal Secretary for Information, Macedonian;
23. Rade Pavlovic, 54, Federal Secretary for Energy and Industry, Serb;
24. Dr. Milorad Stanojevic, 51, Federal Secretary for Agriculture, Montenegrin;
25. Mustafa Nazmi, 41, Federal Secretary for Transportation, Albanian;
26. Dr. Djordje Jakovljevic, 52, Federal Secretary for Labor, Health, and Social Policy, Serb;
27. Dragomir Nikolic, 62, Federal Secretary for Veterans' Affairs, Serb;
28. Janko Cesnik, 50, Federal Secretary for Legislation, Slovene; and
29. Dr. Joze Florijancic, 47, Federal Secretary for Finance, Slovene.

Janko Cesnik was not originally expected to become a member of Mrs. Planinc's government, having been foreseen as a representative of Montenegro. However, Montenegro is said not to have had a suitable person for this job, so it consented to accept the Slovene Cesnik "at least for a period of two years until a replacement is found." (3) This is why Slovenia will have five and Montenegro only three members in the new government.

Another remark: Admiral Branko Mamula, currently the Chief of Staff of the Yugoslav People's Army, and as of May 15 Yugoslavia's new Defense Minister (replacing the Serb, General of the Army Nikola Ljubicic), has been considered a Serb by birth. Now, however, he is being presented as a Croat. This means that the Croats will occupy two of the most important posts in the government: the premiership (Planinc) and defense (Admiral Mamula); the Slovene Stane Dolanc will be Yugoslavia's Minister for Internal Affairs (the chief of police) while the Macedonian Lazar Mojsov will be Yugoslavia's Foreign Minister. The highest job in the new government given to the Serbs is that of Federal Secretary for Foreign Trade, which will be filled by Dr. Milenko Bojanic.

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(3) Vecernji List (Zagreb), 30 April; 1, 2, and 3 May 1982.

Members of New Yugoslav Government

MILKA PLANINC - PRIME MINISTER

X ZVONE DRAGAN
BORISLAV SREBRIĆ } VICE-PRESIDENTS
MIJAT ŠUKOVIĆ

former head of planning in Serbia and seems to be the major power in economic affairs

MEMBERS OF THE FEDERAL EXECUTIVE COUNCIL

1. Boro Denkov
2. Živorad Kovačević
3. Nedeljko Mandić
4. Ivo Margan
5. Spasoje Medenica
6. Abdulah Mutapčić
7. Mito Pejovski
X 8. Janko Smole, Former Minister of Finance
9. Jon Srbovan
10. Dimitrije Tasić
11. Rikard Štajner Economist

FEDERAL SECRETARIES

2. Lazar Mojsov, Foreign Affairs,
2. Branko Mamula, National Defence,
3. Stane Dolanc, Internal Affares,
4. Jože Florijančič, Finance, 47, Slovene
5. Milenko Bojanić, Foreign Trade,
6. Luka Reljić, Market and General Economy Activities,
7. Borislav Krajina, Administration of Justice and Organisation of Federal Administration
8. Mitko Čalovski, Information

PRESIDENTS OF FEDERAL COMMITTEES

1. Rade Pavlović, Energy and Industry
2. Milorad Stanojević, Agriculture,
3. Mustafa Nazmi, Transport and Communications,
4. Djordje Jakovljević, Labour, Health and Social Security
5. Dragomir Nikolić, War Veterans and Infalids,
6. Janko Česnik, Legislation.

May 1982

cc: IO/LAW
MD Jung
Buff file
Cty. file
CED(5)

March 22, 1983 - 83/83

E

The Chairman's Summing Up at the Conclusion of the
1982 Article IV Consultation with Yugoslavia
Executive Board Meeting 83/47, March 11, 1983

Directors noted the importance placed by the Yugoslav authorities on meeting external payments obligations in an orderly manner and welcomed the stabilization plan for 1983, which is intended to promote internal and external balance in both the short and medium term. The need for wide-ranging adjustment measures had become more urgent in late 1982 and early 1983 as a result of the smaller-than-expected improvement in the current account balance with the convertible currency area and the adverse swing in the capital account. Although these developments partly reflected adverse developments abroad, they were also indicative of the urgent need for structural adjustment of the Yugoslav economy.

Directors noted the disappointing economic situation of Yugoslavia after two years of the program with the Fund. They emphasized the inadequacy of adjustment measures of the past years in the face of more difficult external conditions. They welcomed the fact that the real problems seemed to be addressed at last in the present program.

Directors thought it essential to implement restrictive demand management policies. Many considered the official targets for the curtailment of domestic demand to be ambitious but argued that this policy thrust was essential. Given the magnitude of the external debt and the scarcity of available foreign resources, the authorities had no other choice. It was imperative to ensure appropriate allocation of these scarce resources to help achieve external balance in the short term and to bring domestic inflationary pressures under control.

Directors welcomed the emphasis that the program for 1983 placed on the reduction of fundamental distortions, overt and implicit, on both the consumption and investment side, as this was a sine qua non for the achievement of sustainable balance in the economy. Directors noted the important steps already taken by the authorities to bring domestic prices in line with world market prices to improve the efficiency of resource allocation. But a number of Directors, while noting the intention of the authorities to prevent new price distortions from arising, wondered whether this action was sufficient and whether the date by which the authorities hoped to bring about full harmonization--namely, by the end of 1984--was not too far away. Several Directors suggested that the administrative regulations that pervade the pricing mechanism in Yugoslavia might be excessively heavy and could hamper economic incentives.

A number of Directors stressed the policy weakness stemming, in their view, from the negative interest rate structure in Yugoslavia. They doubted whether new controls on interenterprise credit would be effective as long as bank deposits continued to be underremunerated. Directors considered it essential that positive real interest rates be established, and viewed the midyear review as a key opportunity to assess the appropriateness of interest rates.

A number of Directors stressed that the net effect of the new foreign exchange system on export incentives was unclear as the system was overly complex; some suggested that it would be preferable to promote improved integration of the foreign exchange market. If the exchange rate was to be an effective instrument, as was required, an active exchange rate policy would need to be supported by a more market-oriented mechanism for allocating foreign exchange. Some Directors queried whether exchange rate developments foreseen for a number of program countries in this geographical area were fully consistent with one another, and some of them considered that a continuous depreciation would not by itself make up for structural inadequacies.

Directors noted that incomes policy had traditionally been expected to play a central role in the Yugoslav policy strategy but had seldom proved as effective as expected. Recent steps taken to improve the control over the growth of incomes were important but might still prove to be inadequate, in which event it would be essential that more effective instruments of control be developed and implemented rapidly. Therefore, they welcomed the intentions of the Yugoslav authorities to take the necessary steps to tighten controls should the outturn for the first quarter prove unsatisfactory.

Directors noted the prospective tightening of fiscal policy. Although fiscal policy had not usually played a large role in Yugoslav stabilization strategies, a more active use could add to the flexibility of demand management policies and enhance the effectiveness of incomes and credit policy. The limits set on the growth of net domestic assets, which incorporate a substantial rise in velocity, in combination with steps to attempt to control the volume of interenterprise credit, should contribute to the constraining of inflationary pressures. These policies, coupled with changes in the structure of interest rates, represented important structural improvements in the Yugoslav financial system and should enhance financial discipline. Directors urged the authorities to pass quickly the necessary but overdue legislation relating to interenterprise credit.

Several Directors stressed the pressing need for an improvement in the flow of economic information. This was essential for the authorities themselves if they were going to act as desired and as promptly as required. It was necessary also for those who had to make judgments on the adequacy of policies in Yugoslavia.

Directors expressed satisfaction at the efforts of the international banking community and of cooperating governments to arrange external financing supplemental to the Fund's resources. This would permit adjustment policies to be carried out more efficiently than would have been possible if a further significant compression of imports would be required. They stressed the need to put these elements of the financing package in place speedily and effectively.

In general, Directors considered the external financing plan for Yugoslavia to be tight. They thought that it would be crucial for the

Yugoslav authorities to pursue their adjustment strategy with determination, and that they should be prepared to strengthen policies during 1983. The need for continuing the current adjustment efforts was pressing, given the medium-term nature of the Yugoslav economic problems and the immediate external constraints. In that respect, Directors welcomed the intentions of the Yugoslav authorities to seek a continuous monitoring of their arrangements with the Fund.

DRAFT
March 8, 1983

The Chairman's Summing Up at the Conclusion of the Article IV Consultation with Yugoslavia
Executive Board Meeting 83/ - March 11, 1983

Directors noted the importance placed by the Yugoslav authorities on the meeting of external payments obligations in an orderly manner and welcomed the stabilization plan for 1983 that would promote internal and external balance not only in the short but also in the medium term. The need for wide-ranging adjustment measures had become more urgent in late 1982 and early 1983 with the smaller than expected improvement in the current account with the convertible currency area and the adverse swing in the capital account. Although these developments partly reflected adverse developments abroad, they were also indicative of the urgent need for structural adjustment of the Yugoslav economy.

Directors thought it essential that demand management policies remain restrictive. Many considered the official targets for the curtailment of domestic demand to be ~~very~~ ambitious, but argued that this policy thrust was essential to ensure appropriate allocation of scarce resources, to help achieve external balance in the short term and to bring domestic inflationary pressures under control. They welcomed the emphasis that the program for 1983 placed on the reduction of fundamental distortions, overt and implicit, on both the consumption and investment side as this was a sine qua non for the achievement of sustainable balance in the economy.

Directors noted the important steps already taken by the authorities to bring domestic prices in line with world market prices so as to improve the efficiency of resource allocation; the intention of the authorities to prevent new price distortions from arising; and the commitment to bring about full harmonization by the end of 1984. A move toward positive real interest rates and a more active exchange rate policy were welcomed as essential~~, inter alia, for promoting the efficient allocation of capital, for protecting the purchasing power of household savings, for the production of exportables, and for conservation of imports~~. Directors acknowledged, however, that there inevitably would be an initial increase in the inflation rate as a result of these measures. However, ~~most~~ Directors considered that it was essential that positive real interest rates be established and in this context welcomed the opportunity to review the appropriateness of interest rates at the time of the midyear review.

A ~~few~~ number of Directors stressed that the effect of the ~~queried whether the exchange rate adjustment being sought was excessive. Others wondered whether the~~ new foreign exchange on ~~law might not adversely affect export~~ incentives was not clear and some suggested that it would be preferable to ~~and whether indeed it would contribute to the desired~~ promote an improved integration of the foreign exchange market. If the exchange rate was to be an effective instrument as was required, an active exchange rate policy would need to be supported by restrictive demand management policy.~~, and disruptions in export production associated in the past with shortages of imported inputs would need to be avoided.~~

Directors noted that incomes policy had traditionally been expected to play a central role in the Yugoslav policy strategy, but had seldom proved as effective as expected. Recent steps taken to improve the control over the growth of incomes were important, but might still prove to be inadequate, in which case it was essential that more effective instruments of control should be developed and implemented rapidly. Therefore, they welcomed the intentions of the Yugoslav authorities to take the necessary steps to tighten controls should the outturn for the first quarter prove unsatisfactory.

Directors noted the prospective tightening of fiscal policy. Although fiscal policy had usually not played a large role in Yugoslav stabilization strategies, a more active use could add to the flexibility of demand management policies and enhance the effectiveness of incomes and credit policy. The limits set on the growth of net domestic assets, which incorporates a substantial ~~susbtantial~~ rise in velocity, in combination with steps to control the volume of inter-enterprise credit should contribute to the ~~be effective in~~

constraining of inflationary pressures. These policies, coupled with changes in the structure of interest rates, represented important structural improvements in the Yugoslav financial system and should enhance financial discipline.

Directors expressed satisfaction at the efforts by the international banking community and by cooperating governments to arrange external financing supplemental to Fund resources. This would permit adjustment policies to be carried out more efficiently than would have been possible were a further significant compression of imports required. They stressed the need to put these elements of the financing package in place speedily and effectively.

In general, Directors considered the external financing plan for Yugoslavia to be ~~very~~ tight. ~~Some latitude might emerge through further falls in international interest rates or a reduction in oil prices, but then the projection of current account receipts might have been on the optimistic side~~. They thought that it would be crucial for the Yugoslav authorities to pursue their adjustment strategy with determination, and that they should be prepared to strengthen policies during 1983. With evidence that the requisite shift of resources to the export sector and further progress in bringing about needed structural change are taking place, there could be a possibility of greater autonomous capital inflows than projected in the staff report. But any such

Several Directors stressed the urgent need for an improvement in the flow of economic information. This was essential for the authorities themselves if they were going to act as desired and promptly as required. It was necessary also for those who had to make judgements on the adequacy of policies in Yugoslavia.

relief would not remove the need for continuing the current adjustment efforts given the medium-term nature of the Yugoslav economic problems. In that respect, Directors welcomed the intentions of the Yugoslav authorities to seek a new stand-by arrangement with the Fund upon expiration of the current one.

cc: IO
Cty. file
Buff file
Mr. Jung
CED

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

March 8, 1983 - 83/72

Statement by Mr. Polak on Yugoslavia
Executive Board Meeting 83/45
March 11, 1983

It has been only four months since the Board last discussed the stand-by arrangement with Yugoslavia (on November 12, 1982), but a great deal has happened in these four months.

It became clear, in the last months of 1982, that, in spite of additional adjustment measures taken since the new Government took office in mid-1982, there was no possible way in which, in the short run, compensation for a radical change in the capital account of the balance of payments could be found by an improvement in the current account. Moreover, the actual improvement over 1981 in the current account turned out to be much smaller than had been expected until close to the end of 1982: in transactions with the convertible currency area, though there was a satisfactory improvement of about \$0.5 billion in the first half of the year, there was none in the seasonally more important second half, so that for the year as a whole the improvement was small (the deficit declined from \$1.8 billion to \$1.4 billion), nearly \$1 billion less than had been expected.

But even without this disappointing performance of the current account it became increasingly evident that it would be necessary to deal directly with the question of capital outflows as large-scale maturities occurred in the first half of 1983, short-term credits ran out rather than being rolled over, and new credits became increasingly difficult to negotiate.

The Yugoslav authorities were, and are, determined not to approach this situation by means of rescheduling of private credits or Paris Club arrangements for government or government-guaranteed debt, and to accept the sacrifices for the population that follow from this decision. This attitude of the Yugoslav authorities has been welcomed by the governments of friendly industrial countries, and in the last few months a major international effort has been mounted to make it possible for Yugoslavia to overcome the difficulties of its capital account for the next few years without the country taking recourse to the rescheduling route. This has involved interrelated actions on the part of the ministries of finance, the export credit agencies and the central banks of a large number of countries; the BIS; the World Bank; and the commercial banks with large exposure in Yugoslavia. The Fund staff has played a key role in orchestrating the highly complex sets of negotiations that were necessary to bring this whole effort to a reasonably satisfactory conclusion. It has undertaken this extraordinary task with alacrity and has stuck with it in the face of disappointments and obstacles from many sides. On behalf of the Yugoslav authorities, I want to express deep appreciation for this major effort by the staff.

A key element in the network of financial arrangements that is now falling into place is, of course, the agreement with the Fund on the program for 1983 (the third year of Yugoslavia's three-year stand-by arrangement), which is also necessary to unlock the Fund's component in the supply of finance for 1983. At SDR 554 million (133 per cent of the present quota), this is by no means a negligible amount in the total financing program. In recognition of the greater seasonal need of Yugoslavia in the early part of the year, the quarterly distribution is slightly front-loaded, with SDR 325 million in the first, and SDR 229 million in the second half of the year.

Although strong efforts have been made to lighten Yugoslavia's immediate burden of debt repayment and to provide it with some fresh resources, it has to be acknowledged that the financing program is extraordinarily tight. Success will depend on full implementation by Yugoslavia of the measures announced, and on early reinforcement of any measures that prove not to be fully adequate to bring about the intended results.

With respect to the outcome of the program over the past two years, Chart 1 of the staff paper summarizes in a simple, telling way the areas where this program has, and those where it has not, come up to the targets and expectations. For credit and the federal budget, the objectives were achieved. The objective for the current account balance for the first year was approximately reached, but the much more ambitious one for the second year was not. The hope to bring inflation down sharply from the previous year's rate was frustrated in both 1981 and 1982. For 1983, the chart shows an expected price rise of 30 per cent, which is only slightly below the experience of 1982. As the staff explains on page 26, their forecast is higher than the amended official price projections of some 25 per cent, and both are higher than the earlier figure of 20 per cent to take account of the effects of the important structural adjustments in certain prices recently introduced and the policy adopted with respect to the exchange rate. A final point that Chart 1 makes very clear is that the disappointments with respect to prices and the balance of payments cannot be attributed to excessive domestic absorption: on the contrary, the growth of the real social product declined in both 1981 and 1982, as against a small programmed increase for each year. But for 1983, a radically more conservative stance has been adopted as inevitable, with real social product expected to fall by 2.6 per cent (Table 5, staff forecast).

It is clear from these few indications of performance that, in spite of policy actions taken on many points in the past two years, and making full allowance for the unfavorable international climate in which the adjustment process had to operate, Yugoslavia had not yet put into place the full instrumentarium of policies required for noninflationary balanced growth with a satisfactory balance of payments. As the staff points out, part of the delays in this connection are related to the difficulties of policy implementation in a federal state.

In designing a program for 1983, the Yugoslav authorities and the staff have made a major effort to design additional measures of policy control to enhance incentives and productivity and to counteract certain built-in inflationary tendencies. In this context, the authorities are moving in the direction of greater emphasis on centralized control of a number of major variables, a point on which Directors laid stress during the previous discussion of Yugoslavia in the Board.

To deal with the inflation problem, the measures to control, on a decentralized basis, the level of nominal workers' incomes have been tightened and it has been accepted that centralized regulation will be introduced if these measures do not achieve the desired result promptly. On prices, further measures are being taken to weed out the remaining distorting effects of price controls, in spite of the short-run inflationary impact of such measures. In the area of credit policy--where end-of-period targets have, with one minor exception, consistently been met--a number of changes and refinements have been introduced. One of these is the adoption of ceilings based on the average of three end-of-month data for each quarter. A second is the substitution of "net domestic assets" of the banking system for the previously used "domestic credit expansion." A third is the control of excessive interenterprise credit by means of a priority system that would oblige an enterprise to pay its creditors before it paid its workers more than the minimum guaranteed income. Credit in the form of unpaid bills had become a source of finance that permitted uneconomic enterprises to continue to operate unchecked by indirectly draining resources from the banking system. The control over credit expansion will also be assisted by further adjustment of interest rates, brought about largely by a significant increase in the cost of funds to the banking system. There has been a tendency in the past to pursue the objective of positive real interest rates on the basis of optimistic views as to the expected rate of inflation. The mid-year review will serve to ensure that any possible tendency in that direction in 1983 will be quickly corrected.

In the case of fiscal policy the risk is not so much that expenditure will outrun receipts; the overall budgets of the federation and the other public sector entities are traditionally in balance. Rather, the risk is that increases in receipts due to inflation will be passed through into increased expenditure. The staff has devised an interesting technique (needed on account of the lag in data on government expenditure) to ensure that, in future, excess receipts will be frozen as an anti-inflationary measure.

Finally, substantial further modifications had to be introduced in the area of exchange and trade policies. Agreement has been reached on additional real depreciation of the dinar (see page 24). In addition, it was necessary to ensure that the regulations on the allocation of export proceeds were such as to give exporters access to foreign exchange to buy the necessary imported inputs and to maintain roughly the benefit they derived before from selling retained foreign exchange to importers.

The staff estimates that with this package of measures the current account deficit with the convertible area can be reduced by about \$1 billion in 1983, to a figure of about \$0.5 billion. With full realization of the plans for the financial flows, this would permit some buildup in reserves, which is absolutely necessary for the country to face the early part of 1984.

* * * * *

The close cooperation between the Fund and Yugoslavia is beginning to show results, even if these results are not forthcoming as rapidly as the two partners had hoped. In the circumstances, there is much to be said for the decision that has already been taken by the Yugoslav Government that it will seek a new stand-by arrangement with the Fund for 1984 and beyond. The financing agreements with governments and banks are predicated on the continued existence of such arrangements; but it seems evident that their value to Yugoslavia extends well beyond these formal considerations.

Office Memorandum

TO : Mr. Whittome

FROM : Helen B. Junz

SUBJECT : Yugoslavia: Board Discussion

DATE: March 10, 1983

I spent a fair amount of time with several Executive Directors on the Yugoslav paper. Aside from the obvious questions about "how does this program really differ from preceding ones, which were unable to achieve real progress in the three or four crucial areas perennially cited," the following questions are likely to come up:

1. Since adjustment has been slow, why was the three year facility not cancelled and a new stand-by concluded? (Laske to be supported, if raised, by Casey.)

2. How did we arrive at the size of the exchange rate adjustment for Yugoslavia and are we not getting into a competitive devaluation situation, see the Romanian and Hungarian programs. (Le Lorier and others.)

3. Any number of questions regarding the foreign exchange law and its operation.

4. Do we believe a fullfledged rescheduling can really be avoided? (Casey and Taylor.)

5. How is it we did not know there were arrears?

6. How can we tell everyone to increase market shares to the West and decrease market shares in the East and still be consistent? (Laske and Le Lorier.)

7. Taylor had a raft of criticisms, that basically total to saying the situation is hopeless.

On the exchange rate question, I indicated the need for a shift in resources to the export sector and a move to equalize profitability in the export sector with that in the sector producing for domestic uses. Thus, I related the exchange rate action to the action to rationalize the price structure. The question regarding Romania and Hungary is more difficult to answer.

Regarding questions about the pace of adjustment and the large amount that still needs to be done, I said that we and the Yugoslavs consider this to be an ongoing process, even though it is the last year of the three year standby; that the Yugoslavs are looking to further arrangements in 1984 and 1985 and that we expect continuous steps to be taken in all major areas.

P.S. The so-called NDA ceiling in the early part of the stand by turns out not to be a NDA ceiling but a misnomer for what last year was called domestic credit, at least that is what the numbers show.

cc: Mr. Mookerjee
Ms. Ripley
Ms. Kirmani
Mr. Lewis

DRAFT
March 8, 1983

The Chairman's Summing Up at the Conclusion of the
Article IV Consultation with Yugoslavia
Executive Board Meeting 83/ - March 11, 1983

Directors noted the importance placed by the Yugoslav authorities on the meeting of external payments obligations in an orderly manner and welcomed the stabilization plan for 1983 that would promote internal and external balance not only in the short but also in the medium term. The need for wide-ranging adjustment measures had become more urgent in late 1982 and early 1983 with the smaller than expected improvement in the current account with the convertible currency area and the adverse swing in the capital account. Although these developments partly reflected adverse developments abroad, they were also indicative of the urgent need for structural adjustment of the Yugoslav economy.

Directors thought it essential that demand management policies remain restrictive. Many considered the official targets for the curtailment of domestic demand to be ~~very~~ ambitious, but argued that this policy thrust was essential to ensure appropriate allocation of scarce resources, to help achieve external balance in the short term and to bring domestic inflationary pressures under control. They welcomed the emphasis that the program for 1983 placed on the reduction of fundamental distortions, overt and implicit, on both the consumption and investment side as this was a sine qua non for the achievement of sustainable balance in the economy.

Directors noted the important steps already taken by the authorities to bring domestic prices in line with world market prices so as to improve the efficiency of resource allocation; the intention of the authorities to prevent new price distortions from arising; and the commitment to bring about full harmonization by the end of 1984. A move toward positive real interest rates and a more active exchange rate policy were welcomed as essential. ~~inter alia, for promoting the efficient allocation of capital, for protecting the purchasing power of household savings, for the production of exportables, and for conservation of imports~~. Directors acknowledged, however, that there inevitably would be an initial increase in the inflation rate as a result of these measures. However, ~~most~~ Directors considered that it was essential that positive real interest rates be established and in this context welcomed the opportunity to review the appropriateness of interest rates at the time of the midyear review.

A number of ~~A few~~ Directors stressed that the effect of the ~~queried whether the exchange rate adjustment being sought was excessive. Others wondered whether the~~ new foreign exchange law ~~might not adversely affect~~ on export incentives was not clear and some suggested that it would be preferable ~~and whether indeed it would contribute to the desired~~ to promote an improved integration of the foreign exchange market. If the exchange rate was to be an effective instrument as was required, an active exchange rate policy would need to be supported by restrictive demand management policy. ~~and disruptions in export production associated in the past with shortages of imported inputs would need to be avoided.~~

Directors noted that incomes policy had traditionally been expected to play a central role in the Yugoslav policy strategy, but had seldom proved as effective as expected. Recent steps taken to improve the control over the growth of incomes were important, but might still prove to be inadequate, in which case it was essential that more effective instruments of control should be developed and implemented rapidly. Therefore, they welcomed the intentions of the Yugoslav authorities to take the necessary steps to tighten controls should the outturn for the first quarter prove unsatisfactory.

Directors noted the prospective tightening of fiscal policy. Although fiscal policy had usually not played a large role in Yugoslav stabilization strategies, a more active use could add to the flexibility of demand management policies and enhance the effectiveness of incomes and credit policy. The limits set on the growth of net domestic assets, which incorporates a susbtantial rise in velocity, in combination with steps to control the volume of inter-enterprise credit should ~~be effective in~~ contribute to the

Several Directors stressed the urgent need for an improvement in the flow of economic information. ~~This~~ This was essential for the authorities themselves if they were going to act decisively and promptly as required. It was necessary also for those who had to make judgements on the adequacy of policies in Yugoslavia.

constraining of inflationary pressures. These policies, coupled with changes in the structure of interest rates, represented important structural improvements in the Yugoslav financial system and should enhance financial discipline.

Directors expressed satisfaction at the efforts by the international banking community and by cooperating governments to arrange external financing supplemental to Fund resources. This would permit adjustment policies to be carried out more efficiently than would have been possible were a further significant compression of imports required. They stressed the need to put these elements of the financing package in place speedily and effectively.

In general, Directors considered the external financing plan for Yugoslavia to be ~~very~~ tight. ~~Some latitude might emerge through further falls in international interest rates or a reduction in oil prices, but then the projection of current account receipts might have been on the optimistic side.~~ They thought that it would be crucial for the Yugoslav authorities to pursue their adjustment strategy with determination, and that they should be prepared to strengthen policies during 1983. With evidence that the requisite shift of resources to the export sector and further progress in bringing about needed structural change are taking place, there could be a possibility of greater autonomous capital inflows than projected in the staff report. But any such relief would not remove the need for continuing the current adjustment efforts given the medium-term nature of the Yugoslav economic problems. In that respect, Directors welcomed the intentions of the Yugoslav authorities to seek a new stand-by arrangement with the Fund upon expiration of the current one.

#1 3/83

Yugoslavia: Speaking Notes

~~B.~~ Executive Board to be commended for ongoing interest expressed in Yugo operation and for help provided in putting together multilegged program.

2 ~~A.~~ Executive Directors have been helpful in furthering cooperation of governments and government agencies, facilitating flow of information, obtaining information, asking pertinent questions, providing support.

1. ~~B.~~ Executive Directors briefed individually and in problem country meetings so only general comments here.

II. Background for 1983 program:

A. 1982 program was not fully aware of need for adjustment facing Yugoslavia.

1. Foreign financial capital still seen to be available.

2. World recovery still foreseen shortly.

3. Substantial progress already made in turning around current account deficit with convertible currency area: deficit of 4.2 per cent of GSP in 1980; to 2.9 per cent in 1981.

4. Domestic inflation and wage developments were major apparent problem each rising by over 40 per cent in 1981.

B. Perhaps program overstressed demand restraint relative to fundamental structural adjustment because of inadequate awareness of administered nature of economy and extent to which gains made thus far were sustainable: 1980 and 1981 cumulative fall in imports of 17 per cent but export increase of less than 10 per cent. Compression of final domestic demand in 1981 had been main source of turnaround in current account (it fell by 4 ~~further~~ per cent in real terms); it was not fully understood that imports would have to be so severely compressed (-5 per cent in volume against -3 projection) for 1982 as turned out to be necessary and that this would so ~~further~~ adversely affect receipts from exports of goods and services (tourism, workers' remittances through confidence).

III. Program for 1983 set against rather different international outlook, especially re. capital availability, and less sanguine assessment as to how much adjustment has actually taken place. Only positive elements: oil prices ($1 per barrel saves $100 million on import bill and similar magnitude on interest payments for 1 per cent fall in LIBOR).

1. Main features of program: prices (25-35 per cent); exchange rate 24 per cent in real terms, December on December; interest rates; better reporting system for external debt and perhaps other financial flows. Demand management components: increase in instruments available. Use of fiscal policy, targets for inter-enterprise credits to enhance effectiveness of income and credit policy ; restrictive monetary policy presupposing rise in velocity of 14 1/2 per cent in 1983 after 6 per cent in 1982; and incomes policy that may (may not) prove more successful. Fall in real income per worker of 7 1/2 per cent as government target.

2. Weaknesses: still heavily reliant on demand management and foreign borrowing. May be difficult to get looked for current account with convertible currency area because:

a. financing resources may not come as quickly and fully as hoped, making difficult essential imports, and thus hampering exports.

b. Foreign exchange that is available may not be optimally allocated for export production.

c. Foreign demand may be over-estimated for Yugoslav goods, or exports incentives to convertible currency area.

d. Demand restraint foreseen may not be tenable, and incomes policy may break down.

e. May fail to secure necessary supply of imported raw materials/oil from CMEA and too large a share of exportables may go to CMEA.

IV. However program offers substantial gains for future, and hopes of avoiding rescheduling and resulting economic/political disruptions that would come with it at present time. Program must, however, not be seen as final, since quarterly reviews foreseen; new agreements for mid-year; and new stand-by for 1984/85 in agreements with the banks. Further governmental initiative foreseen for 1984.

V. <u>Areas</u> where Fund would be particularly keen on seeing further <u>progress</u>:

1. Investment decisions in past not always of best quality: in search of efficient allocation, need realistic cost of capital e.g., more on interest rates.

2. Continuing scrutiny on exchange rate to promote tradeables.

3. Greater integration of financial/foreign exchange markets.

4. Better flow of information.

5. Greater domestic and international competition to promote efficiency.

6. Active price policy with distortions removed by end-1984 all to be welcomed.

7. May need to promote factor mobility (e.g., agree to let unviable firms be closed down).

#2

Questions that may emerge from Staff Report

p. 5 " Main causes underlying severe external liquidity crisis to be found in policies pursued in second half of the seventies" Why have we just discovered the problem?

p. 7 Amorjtization in 1982 of debt with non-convertible area set at $260, but amount outstanding declines by only 3 million .At same time surplus with this area is set at about $1 billion. How are these figures consistent.

p. 8" The growth of final domestic demand was to be curtailed so as to shift resources into the tradable goods and services sector" . Please explain why in the past so much reliance has been placed on restrictive demand management-- even to shift resources to the external sector-- and why so much difficulty has been associated with the implementation of restrictive dmeand management policies. What interest rate measures were taken in 1981?

p.5/ p. 8 Given noted irrationality of investment decisions, what has been done recently to make them more rational?

Table 5: How can one allocate statistical discrepency for 1983 but not for 1982?

p. 12 How are decisions made about the allocation of foreign exchange for imports? How was the decision making in this regard improved in mid-1982?

p. 13 How does the restriction on the withdrawal from foreign exchange accounts work, given ability to write checks against such accounts? and $250 per month.. What " other energy conservation measure" other than gas rationing were adopted?

p. 13 From Oct. 21 to end/year dinar depreciated slightly re $ (but chart shows slight appreciation). What is the apprrpriate exchange rate basket for Yugoslavia?

How does one account for realization of credit ceilings in 1982 but excessive rises in M1/quasi money and rampant inflation.

p. 14 Are Yugo exports in cyclically sensitive products? Have import restrictions on Yugo exports goods been intensified in 1982?

p. 17: will incomes policy be more effective in 1983, and if yes, why?

p. 17: Do current social compacts and self-management agreements reflect the governments bbjectives ofreducing real wages per worker by 7 1/2 per cent in 1983? How will wage freeze in first quarter be brought about? How is this consistent with target of letting personal incomes grow at same rate as current net enterprise incomes? Is first quarter frrze the way one gets to 7 1/2 per cent reduction?(33%inflat. rate would give fall in real incomes of 7 1/2 per cent in one quarter)
p.18 effects foreseen of dinar devaluation on domestic inflation
How will fiscal policy be implemented: given decentralized gov.multipl sources of revenues and expenditures, will limiting revenues to projected expenditures be carried out on an gov. entity/by gov. entity basis, or can something be applied to tge consolidated public sector. Two expenditure ceilings: total public sector expenditures, and transfers. What are two categories for government revenues that will be monitored as ersatx for expenditure data?
p. 19 Why do one move to domestic credit in the second year of the pg
p. 20 discrepency with p. 6 of RED re minimum incomes:" 55 per cent of personal incomes paid in preceding 6-12 mo." versus 50-70 per cent of personal incomes in preceding year.Why is it thought that the new legislation is likely to make SDK more effective, since it already had powers re loss making organizations that it didn't use. Also discussion in Staff Report about personal incomes being geared to prospective earnings not consistent with p. 7 RED saying for 1982 social compacts called for two to grwo at same rate.
I though the business re interenterprise credits was to reduce the amount outstanding, and this isn't brought up here.One sees financial discipline coming re wage payments, the way it reads, but not through making interenterprise credits that much less attractive. How does law foreseen on p. 17 to assure incomes policy target differ from May legislation for SDK for control of payments of persona incomes by loss making enterprises(and for making interenterprise credits less attractive). Why shouldn't they be the same, and both be reviewed by Fund in- at mid-year review?
p. 23 isn't new foreign exchange law move towards even greater fragmentation of f.e. market? p. 24: next 3 priorities taken together less than 5 %?
p. 24: By mid-March further 6 % on X. rate over and above adjustment needed to bring about additional improvement in real incentives.Meani

p. 26 Inflation projections exceed official projections by at least 5 per centage points (28% in table 5 probably wrong). Number closer to ten with 4 1/2 from price changes and exchange rate depreciation of perhaps 40 per cent nominal. Aren't our estimates of inflation on low side?

p. 26

p. 28 what about conntries that have already gone off cover: will they go back on?

Table 10: consistency with Table 4.

p. 31 have Yugoslavs been notified of change in stand-by period?

p.33 what share of oil comes from CMEA. is oil trade with CMEA on a convertivle or non-convertible basis? interest rate/ oil assumption underlying staff projections of bop

p. 34 what would staff recommend to improve statistical base for real ec onomy

description of earlier programs

exchange rate policy: why use Yugo basket

fiscal policy

incomes policy

B.O.P forecast-- realism?

inflation forecast-

#3 DR
(F.Y.I.)

Errors in Staff Report (omitting some typos)

Page reference	Instead of:	Should read:
1. p.1, note 1, line 2	under Consultation	and Consultation
2. p.5, line 8	~~[illegible]~~ 2,586 ~~[illegible]~~	~~[illegible]~~ 1,682 ~~[illegible]~~
3. p.10, para. 3, line 7	477	557
4. p.13, para. 2, line 16	U.S. dollar	official currency baske
5. p.13, para. 4, line 3	1	about ½
	34.4	35.0

(Appendix II shows 35 per cent in both 1981 and 1982; for 1981 the less rounded figure is 35.4 per cent based on measure of GSP underlying Table 5.)

6. p.15 (Table 7)		
M1, June 82/Dec. 81	5.6	5.5
M1, June 83/Dec. 82	4.3	6.0
Other quasi-money, Dec. 83	782.5	791.7 (?)

(This correction would make the percentage change correct and the column add up)

GSP ~~NDA~~, June 82/Dec. 81	21.2	21.1
GSP ~~NDA~~, June 83/Dec. 82	28.1.	28.2
Velocity, Dec. 83/Dec. 82	14.5	14.7
7. p.16 (Table 8)		
Quasi-money, Sept. 82	1,120.0	1,210.0
Other items	-340.7	-340.1 (?)

(Unable to verify; -340.1 used in RED allows column to add up,

8. p.19, para. 2, line 5	14.5	14 ½
9. p.29, Table 10 superseded by supplement		
10. p.45, line 1	4-1	4-5
11. p.51, quasi-money	1,040.3	1,030.0

#3

DRAFT/WLewis
3/9/83:1

Questions That Could Emerge from Staff Report

1. P. 5: "Main causes underlying severe external liquidity to be found in policies pursued in second half of 1970s." Why have we just discovered the problem? Partial answer is that the roots of the problem include the excessive investment in the 1970s which was financed by foreign borrowing but was not rational in balance of payments terms. Future debt service obligations were being built up without a commensurate growth of the export sector. Moreover, growth of exports was concentrated in the last few years in trade with the nonconvertible currency area because of an adverse balance of incentives to export to the convertible area, a problem which was no smaller four years ago than it is today. But the external liquidity crisis acquired its present severity only rather recently, intensified by the swing in the capital account. This recent turnaround would have been more tolerable and probably much less pronounced if the current account imbalances in the second half of the 1970s had not been permitted to grow so large.

2. Pp. 6 and 7: Debt and debt service in nonconvertible currencies.
(a) Why does Table 3 show only marginal declines in nonconvertible currency debt in both 1981 and 1982, despite bilateral surpluses of about US$0.8 billion in each of these two years (RED, Table 20)? Table 3 is not on a net basis; it excludes some foreign assets in bilateral.
(b) Is it not more meaningful to show the bilateral position on a net basis? Yes.

(c) Given the small reduction in claims on Yugoslavia in bilateral currency (Table 3), how can the associated debt service be as large as shown in Table 4 (principal repayments of $200-300 million per annum)? Do not know; debt service figures may be out of date.

3. P. 8, 1st full para., last 2 sentences: It sounds as though the programs for 1981-82 relied heavily on conventional policy instruments. But "credit, interest rate, price, and exchange rate policies" appear to be central to the 1983 program as well. Why should the prospect of success be vastly better this year? (To some extent Polak's buff pre-empts such a question.) Four points may be made by way of response:

(a) Some adjustment did take place in the first part of the program period (e.g., current account) but developments (partly external) showed it to be inadequate. Little progress was made in reducing the inflation rate, though this objective in and of itself is less important than, say, reducing various distortions in relative prices--a point which has been recognized in the 1983 program.

(b) Some policy changes were too slow in coming. For example, a more active interest rate policy was foreseen for the 1981-85 medium-term plan period as a whole, but nominal interest rates were not changed appreciably from their 1978 levels until the first half of 1982.

(c) In some respects the magnitude of adjustment is greater in 1983 than earlier: more on the exchange rate; more on interest rates than in all of 1982, not counting possible further adjustments later in 1982; greater restrictiveness of domestic demand; etc.

(d) Some policy instruments are new in 1983: fiscal policy undertakings, discrete price adjustments on selected items, reduction of interenterprise credit, monthly average credit ceilings, possible strengthening of incomes policy control.

Money and credit

4. (a) How would the restrictiveness of credit policy have been different in the first two years of the program if the NDA definition for 1983 had been applied? In a narrow sense, the answer concerning 1982 can be seen from Table7, as corrected: NDA rose by 15.4 per cent during 1982, 1 percentage point less than the growth of domestic credit. For 1981, there were ceilings on NDA of the banking system, but it is not clear exactly how it was defined. It may have been the case that no adjustments were made with respect to the effect of exchange rate changes on the foreign currency component of quasi-money.

(b) Why the switch to domestic credit in 1982? Do not know.

(c) Is there a greater control over domestic credit than over NDA which makes the one variable preferable to the other for a performance criterion? Perhaps, but the history of busted ceilings leaves some uncertainty: the stand-by beginning in June 1980 (based on NDA) was interrupted because the September 1980 NDA ceiling was broken and a modification of the December 1980 ceiling had to be sought. Also, the December 1981 ceiling on NDA under the new three-year stand-by was exceeded (no waiver was requested, on the grounds that the January 1982 monetary survey data were satisfactory).

Similarly, in 1982, when domestic credit ceilings were used, performance criteria were observed in the first three quarters but the credit ceiling was exceeded at the end of December.

5. The breach of the December 1982 credit ceiling and its explanation give rise to further questions. If, as explained in connection with the overshooting of the December ceiling there are certain exemptions to the ceilings imposed on individual banks by the National Bank of Yugoslavia, why was there not more undershooting or overshooting observed in other quarters of 1982. (Don't know.)

What other exemptions are there besides credit for agricultural stocks? For 1982, don't know. For 1982, we were told that credit to under-developed regions, other credit for Kosovo and credit related to the aftermath of the earthquake in the 1970s were excluded from the limits on both the net domestic assets and domestic credit for individual banks. Agricultural credit was not mentioned by Petrovich.

Do these limits for 1982 incorporate a safety margin, particularly in view of the uncertainty surrounding changes in Other items, net? Answer: there appears to be very little but we probably should not say much about this.

6. In setting the net domestic assets ceiling why should a valuation adjustment be made to the foreign currency component of quasi-money? Its being a store of value and the unlikelihood of withdrawals ~~and~~ are characteristics of many elements of quasi-money in other countries as well, ~~did~~ but the wealth effect still influences the demand for other holdings of broad money. Also, the increase in broad money from whatever source

provides a basis for expansion of domestic credit hence for potential undesired effects on domestic demand and inflation: true or false? It seems that in the present Yugoslav situation this is probably true, but the difficulty was thought to lie in the distribution of the liquidity squeeze as between the hard-pressed enterprises and households with foreign exchange deposits.

7. How could one account for the realization of credit ceilings during most of 1982 at the same time that there were excessive rises in broad money? Could the same be expected in 1983? Part of the answer is found in the increase in Other items (net), an element of which is sensitive to exchange rate depreciation. For 1983 an additional factor could be that the monetary survey would show the actual rise in broad money to exceed that of the adjusted broad money concept on the basis of which net domestic asset limits are formulated.

8. Page 5-page 8. Given the noted irrationality of investment decisions what has been done recently to make them more rational? The most recent changes in this area are those in the amended foreign exchange law which puts a greater burden on both commercial banks and the National Bank to attest to the viability of investment projects regarding ~~both in terms of~~ their return in dinar terms and in terms of foreign exchange earnings (or saving).

9. Table 4, footnote 3. How much of the swing in debt service from 1982 to 1983 is attributable to ~~more~~ payments delays in 1982? Amortization of medium- and long-term loans in 1982 was $250 million less than expected; the estimated amortization for 1983 has been raised by $400 million on account of payments delays expected to be taken care of this year.

10. Table 5. How is it that the statistical disrepancy can be allocated among ~~to money~~ demand components for 1983 but not for 1982? The allocation for 1983 is incorporated in the staff forecast whereas the staff found little firm basis for reconciling official statements concerning the outturn for 1982. Hence, the official estimates were used, including the separate item unallocated consumption.

11. Page 13. How did the limitation of cash withdrawals of $250 per month restrict foreign exchange outflows given the possibility of foreign currency checks against such accounts. We have little concrete evidence of this apart from the observation that these outflows did slow down following the imposition of measures in October.

12. Page 13. What "other energy conservation measures" other than gas rationing were adopted? An important measure was the decision to shut off electricity periodically neighborhood by neighborhood and to restrict heating to certain hours of the day.

13. Page 14. Are Yugoslav exports concentrated in cyclically sensitive products? Uncertain; will look into the commodity composition.

14. Page 17. Will incomes policy be more effective in 1983 and if so, why? We cannot be sure that it will be more effective in the first quarter of 1983 than in 1982 but, if not, a strengthening will be expected through the increased enforcement power of the SDK. Why is it thought that the new legislation is likely to make the SDK more effective since it also had powers over loss-making enterprises that it did not use? Last year it lacked the ability

to withhold payments of personal incomes not in accordance with the terms of social compacts. ~~credit stipulation on their size~~. The new legislation envisages the possibility that SDK would disallow payments in certain cases, not simply inform parties to the social compact, but it remains to be seen how effective this will be in practice.

15. One could be asked how fiscal policy will be implemented in 1983, given the decentralized government and the multiple sources of revenue and expenditure. I presume we have material on this but I do not know the answer. What are the categories for government revenue that will be used to monitor public sector expenditures? To monitor transfers? (Note: Table 15 and 17 are mutually inconsistent on the federation balance for 1981 and 1982. Unsure which is corecct, probably Table 17.)

16. Balance of payments forecast. The swing in the current account in nonconvertible currencies is probably difficult to attain to the extent officially projected, as the staff notes. To what extent does the further curtailment of imports from the convertible currency area hinge on the foreseen rise in imports from the nonconvertible area? Answer: to a very considerable extent. Insofar as this envisaged increase is not realized the consistency between forecasts of merchandise imports and exports in convertible currencies is brought into question. The balance of payments forecast assumes, according to Mr. Keller, a 3 percentage point reduction in interest rates from 1982 to 1983. About 60 per cent of external debt carries a floating rate implying that each additional percentage point cut in foreign interest rates leads to a saving of $100 million. Also,

the price of oil was assumed to be unchanged in dollar terms. Of the $2.2 billion in oil imports in1982 about half ~~were~~ was paid in convertible currencies while the other half came from the U.S.S.R. and was paid for in nonconvertible currency. Thus, for each $3 reduction in the barrel price of oil, imports from the convertible currency area and imports from the nonconvertible area would each be reduced by approximately $100 million. (It is not entirely clear to me why with unchanged external debt in 1982, according to Table 3, and a reduction in interest rates in the course of the year, interest payments should have risen in 1982 as shown on a gross basis in Table 4. There was a shift from short-term debt to debt to the IMF, but this should not have prevented a fall in gross interest payments, should it?)

17. Page 23. One could be asked whether the amended foreign exchange ~~rate~~ law does not represent a move toward greater fragmentation of the foreign exchagne market. The answer is uncertain although the intention is clearly the opposite; ~~as~~ foreign exchange is meant to flow through banks to a greater extent, not from foreign exchange earners to importers at very decentralized levels.

18. Page 26. Given the description of inflation expectations there appears to be a contradiction in table 5 which shows a 28 per cent average increase officially projected for the retail price index. The 28 per cent figure is consistent with the 20 per cent growth during the year but was not stated formally by the Yugoslav authorities. The fact that the GSP deflator was forecast to rise on average by 20 per cent from 1982 to 1983 makes clear that the official price projections were not based on a coherent price forecast.

19. Do developments in recent months suggest that there has been a response of exports to the October devaluaton? At first glance the export figures for January-February 1983 appear promising. However, in light of the apparent sharp cutback in imports in early 1983 there could be some cause for concern about the sustainability of the export increase. There had been reports by commercial banks that the 90-day standstill and associated difficulties in drawing on previously agreed lines of credit to pay for imports, have had an adverse impact on the flow of imports.

20. Page 34. In what area would the staff recommend improvements to the statistical base for the real economy? One area is the national income accounts. It is essential to know what has happened and what is expected to happen to aggregate demand and total output. This is not possible with widely divergent data on output and demand as is the case with the present large statistical discrepancy. Better and more timely data on enterprise accounts are needed though we may not have fully exploited the information available in the Monthly Bulletin of the SDK which we receive. Also, more reliable data on prices and volumes and values of foreign trade are crucial. While the move from the use of annual statistical exchange rates for valuation purposes to the use of exchange rates adjusted on a monthly basis will in time improve intertemporal comparability of trade data, deficiencies will remain.

21. Page 28. What about countries that have already gone off cover? Will they come back on?

#4

Please justify the projected real devaluation of the dinar included in the program ~~and~~- from a domestic perspective and indicate the reasons why it is not a competitive devaluation:

Calculations based on deterioration in ~~external~~ competitiveness from June 1980 to end-1982 based on a variety of approaches yielding suggested real devaluations of between 8 and 30 per cent, the latter being based on movements in prices for Yugoslav exportables in dinars, adjusted for changes in retention ratios etc. relative to movements of prices produced for the domestic market. This is essentially a supply side approach we think appropriate to the Yugoslav economy.

Competitive devaluation question . Define competitive devaluation in which (1) gains looked for in ~~from~~ the current account -- are excessive, and surely the gains hoped for for Yugoslavia are not excessive-- indeed they are minimal given the financing possibilities; (2) that the exchange rate is being relied on excessively in order to avoid using other more painful instruments of adjustment: Yugo is also adjusting interest rates and domestic prices, and apply restrictive demand management though from this perspective perhaps a bit more could be done; (3) (to be supplied tomorrow, when I remember)

Hungary: apparently there was no question about competitive devaluation, and figures were produced only to show restoration of competitiveness to levels attained earlier.

Revised

Table 22. Yugoslavia: Foreign Trade Indicators, 1976-82 1/

(Percentage change over previous year, in terms of U.S. dollars)

	1977	1978	1979	1980	1981 Rev.	1982 Prelim. est.
Exports						
Value	8.0	11.9	16.9	32.1	~~21.7~~ 13.7	0.4
Volume	-2.7	2.7	1.6	11.0	12.7	-4.4
Price	11.0	9.0	15.0	19.0	~~8.0~~ 0.9	5.0
Imports						
Value	32.5	6.6	34.3	7.4	~~-4.6~~ -3.6	-8.2
Volume	16.6	1.5	12.9	-10.5	-4.9	-10.0
Price	13.6	5.0	19.0	20.0	~~10.0~~ 1.4	2.0
Terms of trade	-2.6	3.8	-3.4	-1.0	~~-1.8~~ -0.5	2.9
Memorandum item:						
Growth of Yugoslav export markets	2.4	5.7	4.3	3.8	2.9	0.4

Sources: Data supplied by the Yugoslav authorities; IMF, International Financial Statistics; and staff calculations.

1/ The use of statistical exchange rates in the valuation of trade flows seriously impairs the period-to-period comparability of value and price data.

4. MEXICO - INQUIRY UNDER ARTICLE VIII, SECTION 2(b)

The Director of the Legal Department is authorized to transmit the letter contained as Attachment C to EBD/83/119 (4/27/83).

Decision No. 7392-(83/67), adopted
May 2, 1983

5. YUGOSLAVIA - STAND-BY ARRANGEMENT - REVIEW OF ECONOMIC PERFORMANCE AND EXCHANGE SYSTEM

1. The Government of Yugoslavia has consulted with the Fund in accordance with paragraph 3 of the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/12/81) concerning the circumstances in which further purchases can be made.

2. The letter dated May 4, 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia shall be annexed to the stand-by arrangement for (EBS/81/5, Sup. 2, 2/12/81), and shall supplement the letter of December 30, 1982 and the supplement to that letter dated February 18, 1983. (EBS/83/46, 2/18/83)

3. The Fund notes that the introduction by Yugoslavia of the discount scheme for tourists gives rise to a multiple currency practice. In light of the letter dated May 4, 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, the Fund waives the application of paragraph 3(c)(ii) of the stand-by arrangement for Yugoslavia in this respect, and grants its approval for the retention of this multiple currency practice until the next Article IV consultation or February 28, 1984, whichever is earlier. (EBS/83/88, 5/4/83)

Decision No. 7393-(83/67), adopted
May 9, 1983

6. BHUTAN - TECHNICAL ASSISTANCE

In response to a request from Bhutan for technical assistance, the Executive Board approves the proposal set forth in EBD/83/124 (5/3/83).

Adopted May 6, 1983

7. FEDERATED STATES OF MICRONESIA - TECHNICAL ASSISTANCE

In response to a request from the Federated States of Micronesia for technical assistance, the Executive Board approves the proposal set forth in EBD/83/118 (4/26/83).

Adopted April 29, 1983

8. LEBANON - TECHNICAL ASSISTANCE

In response to a request from Lebanon for technical assistance, the Executive Board approves the proposal set forth in EBD/83/120 (4/27/83).

Adopted April 29, 1983

9. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/83/115 (4/27/83).

Adopted April 29, 1983

10. ASSISTANT TO EXECUTIVE DIRECTOR

The Executive Board approves the appointment set forth in EBAP/83/122 (5/5/83).

Adopted May 9, 1983

11. JOINT DEVELOPMENT COMMITTEE - REPRESENTATION EXPENSES

The Executive Board approves the recommendation set forth in EBAP/83/109 (4/21/83).

Adopted April 22, 1983

12. COST OF LIVING SUPPLEMENTS FOR PENSIONERS

The Executive Board approves the recommendation set forth in EBAP/83/114 (4/26/83).

Adopted April 29, 1983

DOCUMENT OF INTERNATIONAL MONETARY FUND
AND NOT FOR PUBLIC USE

IMMEDIATE ATTENTION

EBS/83/88

CONFIDENTIAL

May 4, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Yugoslavia - Review of Economic Performance and External Financing Package

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by noon on Monday, May 9, 1983. In the absence of such a request, the proposed decision will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Review of Economic Performance and External Financing Package

Prepared by the European Department
(In consultation with other Departments)

Approved by L. A. Whittome and Subimal Mookerjee

May 4, 1983

1. Introduction

On March 11, 1983, Executive Directors approved the program for the third year of the current stand-by arrangement with Yugoslavia. A first purchase for an amount of SDR 175 million was made on March 15. The second purchase for an amount of SDR 150 million is to take place after May 15, providing Yugoslavia has met the performance criteria set down in the stand-by arrangement, and that satisfactory progress has been made in the implementation of the international financial support package for Yugoslavia. The staff visited Belgrade from April 18 to 22, 1983. The mission comprised Mr. Mentré, Ms. Ripley, Mr. Manison, Mr. Lewis (all EUR), Mr. Brimble (STAT), and Mr. Petersen (ETR), and, as secretary, Mrs. Watson (ETR). This paper reports on the findings and results of this recent staff visit to Yugoslavia and on the progress in putting together the international financial support package.

2. Recent economic developments and prospects

Data on economic developments in the first quarter of 1983 are incomplete. However, on the basis of the limited data available, it can be discerned that real domestic demand did not decline to the extent planned, while inflation was higher than expected. These developments occurred against the background of more severe external constraints than expected, arising largely from a shortfall in receipts on capital account. Both personal and public consumption were higher than planned in the initial months of 1983. Although real wages in the socialized sector recorded a marked fall of 7-8 per cent compared with one year earlier, domestic purchasing power seems to have been sustained by factors such as the high level of incomes in the agricultural sector in 1982 and drawings on the large volume of foreign exchange accounts held by the household sector. In the first quarter of 1983, preliminary figures indicate that total public sector revenues were 25 per cent above their level in the first quarter of 1982. In the three months to March 1983, domestic prices rose at a faster rate than expected even after taking into account the effects of the depreciation of the dinar and of officially administered price changes. In the 12 months to March 1983 the retail price and cost of living indices rose by 32 per cent and 36 per cent, respectively. Further substantial price increases are expected to have occurred in April 1983.

On the external side, the trade deficit with the convertible currency area was considerably reduced in the first quarter of 1983, due to both a substantial increase in export shipments and to a large cutback in imports. These developments reflected, inter alia, a shift in exports from the nonconvertible to the convertible currency area, and considerably higher raw material and oil imports from the U.S.S.R. Low stocks of imported goods, which may hinder export-oriented production, together with a sharp decline in advance tourist bookings and uncertainties with respect to remittances from Yugoslav workers abroad, could adversely affect receipts on the current account of the balance of payments in the coming months. On the other hand, the more active exchange rate policy being pursued by the authorities appears to be promoting the faster growth of exports to the convertible currency area. During the first quarter of 1983, there was little change in the level of gross external reserves of the National Bank and the commercial banks, with their level remaining at US$1.7 billion.

3. International financial package

The main participants in the international financial support package for Yugoslavia--representatives of the 15 countries who pledged assistance at the January 1983 Berne meetings, representatives of the International Coordinating Committee (ICC) of the commercial banks providing financial support to Yugoslavia, and representatives of the IMF--met with Yugoslav representatives in Zurich on April 16, 1983 to discuss progress in the implementation of the financial package. A number of procedural problems relating to coordination between governments and banks in executing their elements of the package were identified and resolved at the Zurich meeting. There have been some problems in finalizing bilateral agreements with certain countries, in part because they are offering suppliers' credits for investment goods which Yugoslavia does not now need to import. Accordingly, it is possible that a part of the intergovernment financial package will not be disbursed in 1983.

The Zurich meeting indicated that the banks are making encouraging progress in putting together their part of the package, though delays have been experienced here also. The reconciliation of external debt data between creditors and debtors by an international auditing company, on which the distribution of "new bank money" is to be based, is under way. In a press release following the Zurich meeting, bank representatives confirmed that their financing package will be in place before the end of the "standstill" period, namely, end-June 1983. Generally, it was considered that the Zurich meeting had helped to expedite the finalization of the bank and government elements of the package and had assisted in encouraging the BIS to disburse $300 million on April 22 to Yugoslavia. It thus appears that satisfactory progress has been achieved by the banks in implementing their part of the financing package.

4. Performance under the stand-by arrangement

The fall of domestic demand in the first quarter of 1983 was less pronounced than anticipated, owing in part to slippages in the implementation of fiscal and incomes policies, and from the continuing impact of the rapid growth of interenterprise credits, which tends to offset the effects of a tight monetary policy. Preliminary data for the first quarter of 1983 indicate that performance criteria with respect to limits on net domestic assets of the banking system, on credit from the National Bank of Yugoslavia to the budget of the Federation, and on the increase in new medium- and long-term external convertible currency debt, together with the targets for the real effective exchange rate of the dinar, were met.

Developments in public sector revenues in the first two months of 1983 gave rise to concern that the growth limits planned for the year as a whole might be exceeded. However, revenue growth decelerated markedly in March so that the performance criterion for the first three months was observed. The authorities at the end of March approved legislation designed to ensure that if excess revenues were recorded they would be placed in blocked accounts and not used to fuel undue government expenditures. The mechanisms embodied in the law to assure this outturn are described in the attached letter from the Yugoslav authorities. It has also been agreed that the need for further action will be assessed with the Fund at the time of the midyear review.

While the balance of payments in the first quarter developed broadly as projected in the program for 1983, there were indications that current receipts may be lower than projected for the year as a whole, and the disbursements of credits may be somewhat delayed. The Yugoslav authorities felt it was necesary that additional measures be taken to strengthen foreign exchange earnings and therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travelers' checks. This measure introduces multiple currency practices and will require a waiver of the performance criterion on undertakings regarding the exchange system of Yugoslavia. Given the very difficult foreign exchange position and the intention expressed by the Yugoslav authorities to eliminate this practice as soon as possible, the Fund staff would recommend a waiver of paragraph 3.C(ii) in the stand-by arrangement.

In accordance with the Board decision of March 1983, the Board will review the situation of Yugoslavia at midyear, and a mission will be in Belgrade starting May 30 to assess recent developments and ascertain whether policy changes are called for.

It is proposed that the Executive Board take note of the explanatory letter sent by the Yugoslav authorities on the implementation of fiscal policy, and grants to Yugoslavia the waiver it needs for the introduction of an exchange measure on tourism. Since the Board will review the position of Yugoslavia at midyear, it is proposed that the following decision be approved on a lapse of time basis:

Proposed Decision

1. The Government of Yugoslavia has consulted with the Fund in accordance with paragraph 3 of the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/12/81) concerning the circumstances in which further purchases can be made.

2. The letter dated May 4, 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia shall be annexed to the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/12/81), and shall supplement the letter of December 30, 1982 and the supplement to that letter dated February 18, 1983 (EBS/83/46, 2/18/83).

3. The Fund notes that the introduction by Yugoslavia of the discount scheme for tourists gives rise to a multiple currency practice. In light of the letter dated May 4, 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, the Fund waives the application of paragraph 3(c)(ii) of the stand-by arrangement for Yugoslavia in this respect, and grants its approval for the retention of this multiple currency practice until the next Article IV consultation or February 28, 1984, whichever is earlier.

Yugoslavia: Selected Economic Indicators

	1981	1982	1983 Staff forecast	1983 Jan.-Feb.	1983 Jan.-Mar.
	(Percentage change from one year earlier)				
Production, prices, incomes					
Industrial sector					
Production	4.2	0.1	-2.0	-0.3	--
Employment	3.7	3.3	...	2.4	
Net income per employee	37.4	27.2	...	23.0	
Unit labor costs	36.7	31.3	...	26.3	
Producer prices	45.0	25.0	...	25.0	25.0
Nominal aggregate wages	37.5	31.0	30.0	26.0	
Retail price index	46.0	29.0	33.0	31.0	31.0
Retail price index 1/	39.3	30.7	30.0	31.1	31.9
Cost of living index 1/	36.2	32.7	...	35.2	35.6
Public sector					
Public sector revenue 2/	33.0	22.1	13.0	29.6	25.0
Revenue for collective consumption	31.3	29.3	18.0	29.9	
Money and credit					
Domestic bank credit 1/3/	22.9	17.0	11.7		
Money (M1) 1/	26.6	26.6	12.0	25.0	

	1981	1982	1983 Staff forecast	1982 Jan.-Mar.	1983 Jan.-Mar.
	(In millions of U.S. dollars)				
Balance of payments (convertible currency area)					
Exports	5,720	5,858	6,300	1,113	1,421
Imports	10,600	9,637	8,600	2,220	1,915
Trade balance	-4,880	-3,779	-2,300	-1,107	-494
Services and unrequited transfers (net)	3,059	2,359	1,800	206	227
Current account	-1,821	-1,420	-500	-901	-267
Long-term capital (net)	583	-61	707	-12	114
Short-term capital (net)	167	-506	--	-138	200
SDR allocations, errors, omissions	636	412	--	187	173
Use of Fund credit	672	563	421	155	174
Reserve movements (increase -) 4/	-237	1,012	-628	709	6
External reserves of National Bank, end of period	1,702	850	1,475	1,157	843
Exchange rate (end of period)					
Dinars per U.S. dollar	35.5	51.3		44.9	72.8
Effective rate index of the dinar 5/					
Nominal	100	69.5		93.8	56.0
Real	100	85.4		99.3	72.9

Sources: Yugoslav sources; and IMF staff calculations.
1/ Twelve-monthly change to end of period.
2/ Total revenue of sociopolitical communities.
3/ Stand-by definition.
4/ Including reserves of commercial banks.
5/ Based on official currency basket weights; December 1981 = 100.

May 4, 1983

Dear Mr. de Larosière,

We are writing to you to assure you that the specific performance criteria agreed under the stand-by arrangement have been met but to seek a waiver of the performance criteria set out in paragraph 3.c.(ii) in the stand-by arrangement.

Pursuant to paragraph 4 of the letter of intent of December 30, 1982 as supplemented by paragraph 3 of the letter dated February 18, 1983, public sector revenues and revenues for collective consumption, including revenues for payments having the characteristics of personal income payments, have increased when compared with the same period of 1982 by 32 per cent in January, by 28 per cent in February, which means 30.0 per cent for the first two months, and by 17 per cent in March which means 25 per cent in the first three months. Excess revenues of the public sector and revenues for collective consumption registered in the first quarter will be frozen, effective May 15, in line with our commitment under the letter of intent.

In accordance with our intentions to adjust downward the rate of growth of public sector expenditures the Federal Assembly approved on March 31 a law according to which the public sector revenues and revenues for collective consumption, defined to exclude revenues for payments defined above shall not exceed the corresponding figures for 1982 for the period January-July by more than 13 per cent and 11 per cent, respectively. The cumulative intermediate figures for the first four months, the first five months, and six months should not exceed about 21 per cent, 17 per cent, and 13 per cent, respectively. If at the end of the first of each of these periods there were revenues in excess of the targets specified above, these revenues will be frozen immediately to avoid any excess in expenditure.

We are fully aware of the need to avoid any excess expenditure growth during the course of 1983 in view of the external constraints and the need for adjustment. We stand ready at the time of the mid-term review, against the background of the data then available, to reach understandings with the Fund on the adequacy of the fiscal measures foreseen and on future action. The adequacy of that share of public sector revenues now being monitored will be assessed at that time.

In view of our desire to see the public sector operations contributing to the adjustment process, we no longer consider it appropriate to reduce taxes <u>pari passu</u> to hold down revenues and to permit the redistribution of funds in blocked accounts which will excessively strengthen domestic demand. Therefore, in the event that public sector revenues in the subsequent months should be rising more rapidly than expected, we will rely more on the freezing of excess revenues than on the reduction of tax rates to prevent undesirable effects on domestic demand. The relevant sections of the letter of intent of December 30, 1982, as supplemented by the letter dated February 18, 1983, should be read in the context of the present explanatory letter.

While the current account in the first quarter developed broadly as projected, particular uncertainties have arisen in connection with the projections for tourism receipts, but also on the timing of the financial disbursements. It was felt necessary that additional measures be taken to strengthen the prospects for revenue growth, therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travellers checks. While this is in line with the spirit of the program, seeking a strong improvement in the current account with the convertible currency area, it will require a waiver of the performance criteria on undertakings regarding the exchange system of Yugoslavia. Accordingly, I request a waiver of the performance criteria set out in paragraph 3.c(ii) in the stand-by arrangement. It is our intention to eliminate this discount as soon as conditions allow so.

Yours sincerely,

R. Makic

J. Florjancic

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FOR AGENDA

EBS/83/46
Supplement 1

CONFIDENTIAL

March 10, 1983

To: Members of the Executive Board

From: The Acting Secretary

Subject: Yugoslavia - Staff Report for the 1982 Article IV Consultation and Review Under Stand-By Arrangement

The attached supplement to the staff report for the 1982 Article IV consultation with Yugoslavia and the review under the stand-by arrangement for Yugoslavia has been prepared on the basis of additional information.

This subject has been placed on the agenda for discussion tomorrow, Friday, March 11, 1983.

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Staff Report for the 1982 Article IV Consultation and Review under Stand-By Arrangement-- Supplementary Information

Prepared by the European Department

Approved by L. A. Whittome and Subimal Mookerjee

March 10, 1983

Since the staff report for the 1982 Article IV consultation and review under stand-by arrangement for Yugoslavia was issued, more detailed information on the proposed financing package has become available. The paper is on the agenda for discussion on March 11, 1983.

The external financing flows on the basis of the proposed program and the associated financing package are set out in Tables 1 and 2. These tables present somewhat more precisely the material shown in Table 10 of the staff report (EBS/83/46, 2/24/83). Nevertheless, it is in the nature of such projections that these data remain relatively tenuous.

On the basis of the latest data available, the staff still postulates a current account deficit of US$1/2 billion vis-à-vis the convertible currency area for 1983. Financing needs other than to cover the current account deficit include an estimated US$2.6 billion of medium- and long-term maturities falling due in 1983 and short-term maturities of US$1.8 billion. To cover other obligations, an estimated US$0.4 billion will be needed to eliminate the buildup in arrears in the first half of 1983 and about US$0.2 billion during the entire year for the extension of export credits to foreign importers.

Table 2 shows the estimated breakdown by creditor of medium- and long-term debt maturing in 1983. According to these estimates, about US$760 million falls due to governments and to suppliers holding government guarantees. With the US$345 million due the international financial institutions, total 1983 maturities held by governmental and by nonbanking are a little over US$1 billion. The residual, US$1.4 billion, is the estimated amount of 1983 maturities held by foreign banks. If the amount due to banks in 1983 excludes the estimated US$0.4 billion of matured, but still unpaid, debt cumulated by the end of May 1983, resources needed both to meet maturing bank debt and to clear up the arrears, would be US$1.8 billion.

On the assumption that official reserves, currently at very low levels, need to be built up sufficiently to meet the seasonally adverse needs of the first half of 1984 and to provide a minimal cushion for errors in the downward direction, an additional US$3/4 billion in financial resources would be needed. On this basis, total resources to cover financial needs in 1983 would have to be US$6.3 billion.

The sources of funds to meet these financing requirements are estimated to be as follows: (1) Suppliers' credits are, at US$0.7 billion, virtually totally associated with arrangements agreed under the economic cooperation action for Yugoslavia by 15 governments. (2) In addition, the government package includes about US$0.3 billion in financial credits, the larger part of which is likely to be disbursed in the second half of 1983. (3) The amounts estimated to be available from the international financing institutions total US$1.1 billion gross in 1983, or, on a net basis, US$3/4 billion. (4) As noted in the staff report, the commercial banks have agreed in principle to roll over short-term debt as it comes due in 1983 four times, for six months each time. (5) Depending on the final estimates of the outstanding bank credits that mature in 1983, an amount of US$2.2-2.4 billion would need to be provided in financial credits from banks. The financing package currently being negotiated between the commercial banks and the Yugoslav authorities contemplates provision of US$600 million in new bank financing, in addition to the amounts needed to meet maturing debt, including the clearing up of arrears. The international coordinating committee, which represents foreign banks with outstanding credits to Yugoslavia, will work to ensure that the financial credits contemplated under this package will be committed and available for disbursement on or before May 27, 1983.

The overall financial package for Yugoslavia is very tightly construed and the timing and adequacy of the proposed bank credits are essential elements. Thus, the staff believes it would be prudent to make the second purchase, of SDR 150 million, under the proposed third year of the stand-by arrangement, which would become available on May 15, 1983, contingent upon satisfactory progress having been achieved by the banking community to meet both the basic amounts and the proposed dates. The proposed decision, on page 38 of EBS/83/46, has been amended accordingly and a corrected page is being issued. The virtual absence in this package of a margin for error implies the necessity for continuous monitoring of the economic and financial situation. To the extent that friendly governments are able to lend additional support, primarily by moving in parallel with the foreign commercial banks in stretching out or rolling over direct credits or guarantees by export credit agencies, a certain amount of leeway, and therefore reinsurance, will become available. Furthermore, such action would ensure the availability of needed inputs for domestic production, particularly for exports.

An integral component of the overall package is the bridging operation by the Bank for International Settlements (BIS). On March 7, 1983 the BIS agreed in principle to make available a US$500 million short-term credit to Yugoslavia so as to tide the Yugoslav economy over the seasonally difficult first half of 1983. The exact timing of this credit depends to some extent upon the clearing away of certain administrative obstacles, but at least US$300 million should be available as soon as technically possible. Repayment is timed more or less to coincide with the proposed phasing of the resources available under the stand-by arrangement with the Fund, so that the BIS credit is expected to be repaid fully by late 1983.

The Yugoslav authorities have made available revised estimates for the level of net domestic assets and its components for December 31, 1982. Because of small changes in these estimates, they have requested a parallel change in the data quoted in the supplement to their letter of intent as shown on page 54 of EBS/83/46. These changes do not affect the projected growth rates of the stock of net domestic assets for the period of the proposed arrangement. A corrected page 54 and corrected Tables 7 and 8 are being issued accordingly.

Table 1. Yugoslavia: External Financing Flows vis-à-vis the Convertible Currency Area

(In billions of U.S. dollars)

	1983 Total	1983 1st half	1983 2nd half	1984	1985
Use of funds					
Current account balance	-0.5	-1.1	0.6	--	1/2
Medium- and long-term maturities 1/	-2.6	-1.1	-1.5	-2 1/2	-2 1/2
Short-term maturities	-1.8	-1.0	-0.8	-2	-2
Other obligations	-0.6	-0.5	-0.1	-1/4	-1/4
	-5.5	-3.7	-1.8	-4 3/4	-4 1/4
Sources of funds					
Suppliers' credits	0.7	0.3	0.4	1 1/2	1 1/4
World Bank, EIB	0.5	0.1	0.4	1/2	1/2
IMF 2/	0.6	0.4	0.2	1/4	1/4
Rollover of short-term debt	1.8	1.0	0.8	2	2
Government financial credits	0.3	0.1	0.2	1/4	1/4
BIS	--	0.5	-0.5	--	--
Bank financial credits	2.4	1.6	0.8	1/2	1/2
	6.3	4.0	2.3	5	4 3/4
Change in reserves	0.8	0.3	0.5	1/4	1/2

Sources: National Bank of Yugoslavia; and staff estimates.

1/ See Table 2 for breakdown.
2/ Total IMF drawings, at end-January 1983 exchange rates, equal US$602 million, of which US$353 million can be purchased in the first half and US$249 million in the second half of the year.

Table 2. Yugoslavia: Estimated Breakdown of 1983 Medium and Long-Term Maturities by Holder

(In millions of U.S. dollars)

1.	Total	2,625
	Due to:	
2.	IMF	185
3.	IBRD	160
4.	Subtotal (2+3)	345
5.	Due to others: (1-4)	2,280
6.	Of which: Middle Eastern Governments	60
7.	Governments and suppliers holding officially guaranteed debt	700
8.	Other	80
9.	Subtotal (6+7+8)	840
10.	Residual = due to banks (5-9)	1,440

Sources: National Bank of Yugoslavia; and staff estimates.

DOCUMENT OF INTERNATIONAL MONETARY FUND
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FOR AGENDA

EBS/83/46 & Corr. 1 & 2

CONFIDENTIAL

February 24, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Yugoslavia - Staff Report for the 1982 Article IV Consultation and Review Under Stand-By Arrangement

Attached for consideration by the Executive Directors is the staff report for the 1982 Article IV consultation with Yugoslavia and a review of the stand-by arrangement for Yugoslavia. Draft decisions appear on pages 35 through 38.

This subject will be brought to the agenda for discussion on a date to be announced.

Att: (1)

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INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Staff Report for the 1982 Article IV Consultation
and Review under Stand-By Arrangement

Prepared by the European Department and
the Exchange and Trade Relations Department

(In consultation with the Legal and Treasurer's Departments)

Approved by L. A. Whittome and Subimal Mookerjee

February 23, 1983

I. Introduction

The 1982 Article IV consultation and discussions on the stand-by program for the final year of the three-year stand-by arrangement with Yugoslavia were conducted in Belgrade during the period December 2 to 24, 1982 and February 11 to 17, 1983. 1/ The Yugoslav representatives included officials of the National Bank of Yugoslavia, and of various Federal Secretariats and agencies concerned with economic matters. The policy discussions were led by the Vice President of the Federal Executive Council, Mr. Dragan, and included Vice President Srebrič, the Federal Secretary for Finance, Mr. Florjancič, the Governor of the National Bank of Yugoslavia, Mr. Makič, the Deputy Governor of the National Bank of Yugoslavia, Mr. Veljkovič, and other officials. The staff participating at various times during the period were Mr. L.A. Whittome (EUR), Mrs. H.B. Junz (EUR), Ms. D. Ripley (EUR), Mr. M. Brimble (STAT), Mr. L.G. Manison (EUR), Mr. P.M. Keller (ETR), Ms. N. Kirmani (ETR), Mr. W. Lewis (EUR), and, as secretary, Miss M. Stuart (ETR), and Miss M. Owen (TRE). Mr. F. Kilby (IBRD) also joined the discussions in December.

On January 30, 1981, Executive Directors approved a three-year stand-by arrangement for Yugoslavia in an amount equivalent to SDR 1,662 million, or 400 per cent of quota. Two thirds of this amount was purchased during the first two years of the arrangement. The remaining one third, or SDR 554 million, may be purchased during the third year of the arrangement. According to paragraph 3(b) of the stand-by arrangement (EBS/81/5, 1/15/81) and paragraph 28 of the letter of the Federal Secretary for Finance and the Governor of the National Bank of Yugoslavia, dated January 15, 1981, requesting the stand-by arrangement,

1/ The last consultation discussions were in December 1981. The staff report (SM/82/24, 2/2/82) and Review and Consultation under Stand-By Arrangement (EBS/82/20, 1/29/82) were discussed by Executive Directors on February 22, 1982. Yugoslavia continues to avail itself of the transitional arrangements under Article XIV.

the Yugoslav authorities are to consult with the Fund and reach understandings for the remaining period of the arrangement before the beginning of the third year of the stand-by arrangement. As mentioned above, consultations and discussions took place during December 1982 and February 1983. The prospects and policies for 1983 are described in the attached letter, dated December 30, 1982 and in the supplement to the letter dated February 18, 1983, signed by the Federal Secretary for Finance and the Governor of the National Bank of Yugoslavia.

Fund holdings of Yugoslav dinars on January 31, 1983 amounted to the equivalent of SDR 2,002.5 million, or 482.0 per cent of quota (Appendix I); excluding holdings relating to purchases under the oil and compensatory financing facilities, they were SDR 1,756.4 million, or 422.7 per cent of quota. It is proposed that the SDR 554 million that may be purchased during the year should be made available as follows: up to SDR 175 million until May 15, 1983, up to SDR 325 million until August 15, 1983, and up to SDR 425 million until November 15, 1983 (Table 1). If the full amount is purchased before the end of 1983, the Fund's holdings of Yugoslav dinars, excluding the oil and compensatory financing facilities, will rise to SDR 2,266.2 million by December 31, 1983, or 545.4 per cent of quota.

The performance criteria for the second year of the stand-by arrangement included ceilings on the level of domestic credit extended by the banking system, on the increase in credit extended by the National Bank to the budget of the Federation and on the increase in the outstanding amount of debt in convertible currency. They were met on March 31, June 30, and September 30, 1982.

The level of credit extended by the National Bank of Yugoslavia to the budget of the Federation and that of the stock of outstanding debt in convertible currencies on December 31, 1982 conformed to the performance criteria. However, the level of domestic credit outstanding on that date, according to preliminary data, exceeded the agreed ceiling by Din 9.2 billion or 0.4 per cent (Table 2). The authorities explained that the most important single factor accounting for this breach of the ceiling related to a considerably better than expected growth of agricultural output, in particular a more favorable harvest of corn. Credit extended for carrying of agricultural inventories is exempted from the ceilings imposed by the National Bank on domestic credit. The Bank now has reduced the limits for extension of nonagricultural credits in order to compensate for the larger-than-anticipated credit demand of the agricultural sector. The Bank fully expects that the limits on the stock of net domestic assets agreed for the first six months of 1983 will be observed.

Since 1949, the World Bank Group, including the International Finance Corporation, has approved loans and credits in Yugoslavia amounting to US$3.5 billion, of which about US$1.3 billion was extended to the transportation sector. In recent years World Bank projects have

Table 1. Yugoslavia: Purchases Under the Stand-By Arrangement

	First year (Feb. 1981– Jan. 1982)	Second year (Feb. 1982– Jan. 1983)	Third year (Feb. 1983– Jan. 1984)	Total
1. Amount available				
In millions of SDRs	554	554	554	1,662
In per cent of quota	133	133	133	400
Amount drawn				
In millions of SDRs	554	554	--	1,108
In per cent of quota	133	133	--	267
Amount undrawn				
In millions of SDRs	--	--	554	554
In per cent of quota	--	--	133	133

2. Proposed phasing over third year	1983			
Amount becoming available on:	(March 16)	May 15	August 15	November 15
In millions of SDRs	175	150	100	129
In per cent of quota	42	36	24	31

Source: International Monetary Fund, European and Treasurer's Departments.

Table 2 . Yugoslavia: Quantitative Performance Criteria for Second Year of Stand-by Arrangement

	1982							
	March 31		June 30		Sept. 30		Dec. 31	
	Ceiling	Actual	Ceiling	Actual	Ceiling	Actual	Ceiling	Actual 1/
Domestic credit extended by banking system: stock on date shown (in billions of dinars)	1,996	1,996	2,076	2,076	2,159	2,159	2,247	2,256
Credit of the National Bank to the budget of the Federation: change from December 31, 1981 to date shown (in billions of dinars)	--	--	--	-0.4	--	-0.4	--	-0.4
Convertible currency debt outstanding 2/ change from December 31, 1981 to date shown (in billions of U.S. dollars)	0.7 3/	--	0.7 3/	0.2	...	0.3	0.5	-0.1

Sources: Yugoslav authorities; and staff estimates.

1/ Preliminary figure.
2/ External debt with original maturities of more than one year. Includes borrowing by the National Bank of Yugoslavia and commercial banks. Excludes net purchases from the Fund.
3/ This was the maximum increase permitted in the period up to June 30, 1982.

focused increasingly on the agricultural sector which has received 13 loans amounting to about US$772 million, or more than 20 per cent of total IBRD loans extended to Yugoslavia. In addition, IBRD lending has concentrated on industry, energy, telecommunications, water supply and sewerage, tourism, and the environment. During 1982, four loans totaling US$189 million were approved, of which two loans totaling US$115 million were to the agricultural sector. As of December 31, 1982, total disbursed IBRD loans outstanding to Yugoslavia amounted to US$1,682 million while undisbursed loans amounted to US$904 million. In recent years, disbursements of project loans have averaged US$275 million per year, and are expected to continue to average similar amounts over the next five years.

II. Background

1. Medium-term context

Developments in the Yugoslav economy have been reviewed frequently during the past two years and the information contained in EBS/82/181 (10/7/82) sets out in detail the background to the present difficult economic situation. The main causes underlying the severe external liquidity crisis that faced Yugoslavia by end-1982 are to be found in the policies pursued in the second half of the 1970s. As in many other countries, excessive optimism dominated that period. This led to a continuation of high-growth policies, despite the change in world economic conditions that argued for a basic shift in policy orientation.

Yugoslavia's growth-oriented policies relied heavily upon foreign, largely borrowed, capital resources. External indebtedness more than tripled, to almost US$20 billion between 1975 and 1981 and over that period, external debt in convertible currencies rose from less than US$6 billion to more than US$18 billion (Table 3). Since then, the level of indebtedness has stabilized, largely because lenders have been unwilling to extend further credit. The sharp increase in external debt in convertible currencies was accompanied by a very fast rise of the debt service ratio, which rose by almost two-thirds to over 25 per cent between 1980 and 1981 alone, as exports to the convertible currency area fell well below expectations, interest rates in international capital markets rose, and the average maturity of the outstanding debt shortened appreciably (Table 4).

The excessive economic expansion and the mortgaging of future output since the mid-1970s was compounded by a serious misallocation of resources. Expensive and increasingly scarce borrowed capital resources were channeled into projects that turned out neither to yield the foreign exchange earnings (or savings) needed for debt servicing, nor, more generally, to be financially viable. The ability of firms to earn convertible foreign exchange and their incentive to do so were hampered by

Table 3. Yugoslavia: External Debt Disbursed and Outstanding

(In millions of U.S. dollars; end of period)

	1975	1979	1980	1981	1982
Repayable in convertible currency	5,816	13,680	17,608	18,337	18,280
Medium and long term	5,613	12,812	15,558	16,025	16,470
Public or publicly guaranteed	2,294	3,530	4,697	5,957	6,380
IMF	182	456	760	1,252	1,754
IBRD	560	1,143	1,359	1,483	1,576
Other	1,552	1,931	2,578	3,222	3,050
Private	3,319	9,282	10,861	10,068	10,090
Commercial banks	1,230	5,120	6,110	6,350	6,040
Other	2,089	4,162	4,751	3,718	4,050
Short term	203	868	2,050	2,312	1,810
Repayable in bilateral currency	768	1,490	1,542	1,531	1,528
Total debt	6,584	15,170	19,150	19,868	19,808

Sources: Data provided by the Yugoslav authorities; and staff projections.

Table 4. Yugoslavia: Debt Service Payments on Medium- and Long-Term Debts 1/

(In millions of U.S. dollars)

	1980	1981	Prelim. 1982	Projections 2/ 1983	1984	1985
Repayable in convertible currencies, excluding IMF						
Amortization	1,844	1,695	1,690 3/	2,843 3/	2,576	2,509
Interest 4/	1,205	1,887	1,960	2,000	2,000	1,900
	3,049	3,582	3,650	4,843	4,576	4,409
Repayable in bilateral currencies						
Amortization	162	238	260	270	290	320
Interest	45	40	45	70	75	85
	207	278	305	340	365	405
Total	3,256	3,860	3,955	5,183	4,941	4,814
Memorandum items:						
Debt service to IMF 5/						
Repurchases	70	88	45	182	295	353
Charges	31	60	118	162	180	169
Total	101	148	163	344	475	522
Debt service/exports of goods and services (in per cent)						
Convertible currencies, excluding IMF	15.6	25.4	24.1	33.8	28.1	24.9

Sources: Data provided by the Yugoslav authorities; and staff projections.

1/ Debts with an original maturity of over one year, excluding IMF.
2/ Staff projections on debt service payments on estimated outstanding debt in 1982 and projected new borrowing in 1983.
3/ There were delays of scheduled payments in 1982 which are projected to be eliminated in 1983.
4/ Includes interest on short-term debt.
5/ On purchases outstanding at end-December 1982; SDR amounts converted to U.S. dollars at average exchange rates through 1982, thereafter at the rate of SDR 1 = US$1.095.

the existence of a fragmented foreign exchange market and by an exchange rate policy that only partly offset the effects of divergent domestic and foreign price trends. Accordingly, there was a marked decline in the share of exports going to the convertible currency area. However, the growth of aggregate demand associated with the expansion of investment activity allowed both employment and nominal wages to grow rapidly despite unfavorable developments in labor productivity and in the external balance. Accordingly, not only investment, but indirectly also consumption became increasingly dependent upon borrowed resources. At the same time, price, credit, and restrictive domestic trade policies shielded the economy from competition from within and without, so that distortions between domestic supply and demand became progressively embedded.

By 1979, in the wake of the second oil shock, the external current account deficit reached 6 per cent of gross social product. In response, the authorities embarked on an adjustment program that, however, turned out to be inadequate to the task of solving the problems that had arisen. Accordingly, the stabilization program for 1981 set out a medium-term strategy designed to secure adequate and sustainable external and internal adjustment. The growth of final domestic demand was to be curtailed so as to shift resources into the tradable goods and services sectors. Credit, interest rate, price, and exchange rate policies were to be used actively in support of the program.

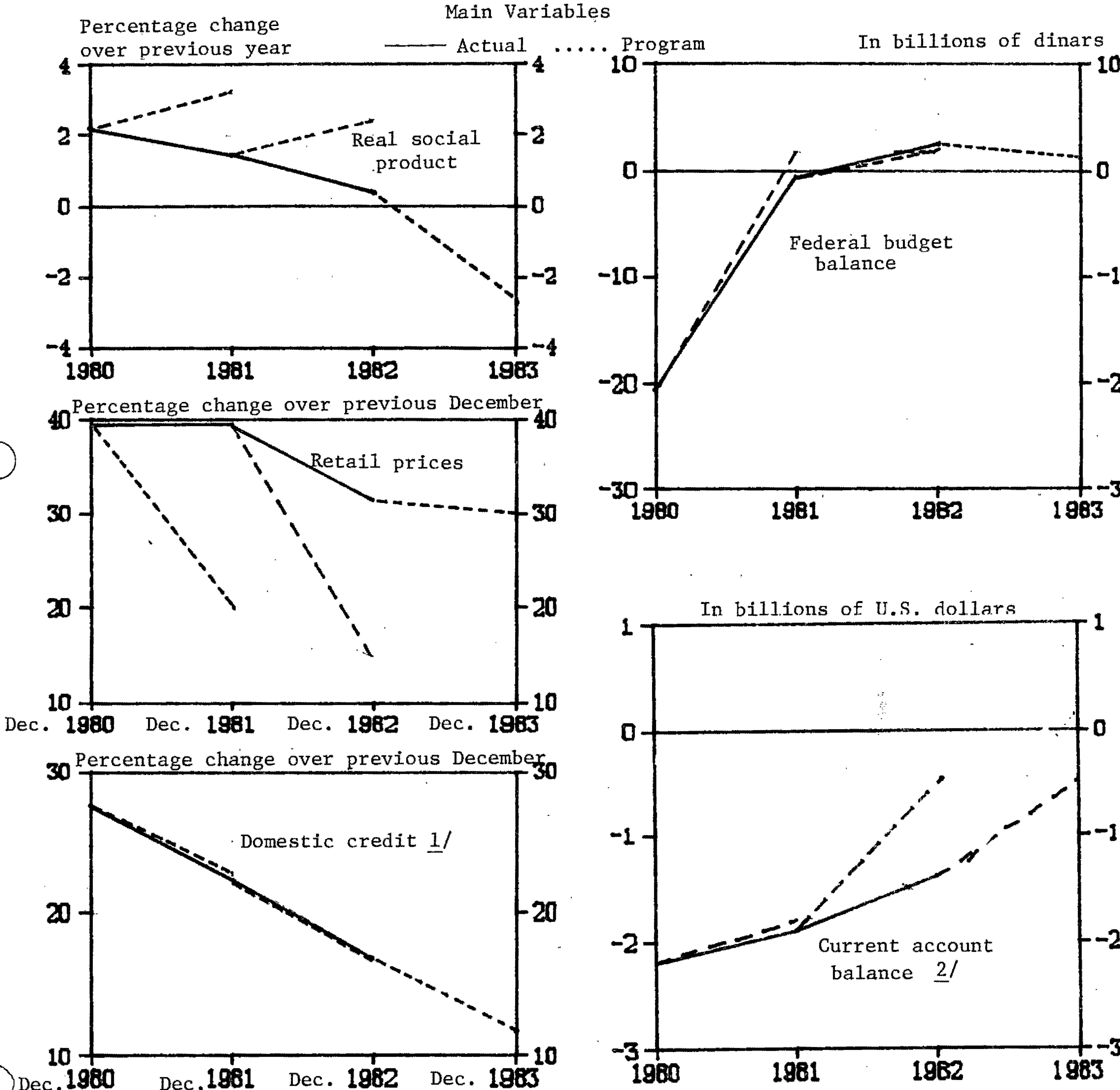
These policies led to a decline in final domestic demand, in real terms, of over 7 per cent between 1980 and 1982, with fixed investment falling by 15 per cent, albeit from a high level (Table 5). In 1981 consumption demand fell for the first time in more than a decade, and this decline continued into 1982. These sharp adjustments, however, were accompanied by a disappointing price performance. Although the inflation rate was reduced from 46 per cent in 1981 to 30 per cent in 1982—approximately the same level that had been recorded in 1980—this improvement fell far short of policy aims.

A prime cause of the inflationary tendencies in the Yugoslav economy is to be found in the wage payments system. Enterprises traditionally base increases in personal income on prospective earnings, which continually tend to be overestimated, with enterprises subsequently attempting to validate the excessive wage awards by raising prices. Because of the inefficient internal distribution system and sheltered domestic markets, there has been relatively little resistance to price increases for other than basic consumer goods such as bread, housing, and transportation. Accordingly, the Yugoslav economy has been prone to repeated wage-price spirals, which have frustrated time and again initially successful attempts to control incomes. These inflationary tendencies, combined with an exchange rate policy that has tended to lag inflation differentials, have increased incentives to divert output from export to domestic markets.

Chart 1

YUGOSLAVIA

Main Variables



Source: Data provided by Yugoslav authorities; and staff estimates.
1/ Program variable for 1983 is net domestic assets of the banking system.
2/ Balance of payments with the convertible currency area.

Table 5. Yugoslavia: National Accounts, Incomes, and Prices

	1980	1981	1981	1980	1981	1982		1983	
	In billions of dinars at current prices		In per cent of GSP			Plan 1/	Preliminary estimate	Plan 1/	Staff forecast
				(In 1980 prices; per cent change)					
National accounts									
Private consumption	818.8	1,143.3	51.7	0.7	-1.0	--	-2.5	-6.0	-2.0
Public consumption	143.1	198.2	9.0	2.7	-0.5	-0.2	-1.8	-0.3	-5.0
Gross fixed investment	545.7	676.6	30.6	-1.7	-9.1	-6.0	-6.3	-20.0	-7.0
Final domestic demand	1,507.6	2,018.1	91.3	--	-3.9	-2.1	-3.7	-10.0	-4.0
Stockbuilding 2/	119.6	238.1	10.8	1.4	3.3	-0.8	-3.3	-0.7	--
Statistical discrepancy 2/3/	-5.6	-6.6	-0.3	--	-0.8	4.3	4.9	7.4	--
Total domestic demand	1,621.6	2,249.6	101.7	1.3	-0.9	-2.6	-1.8	-2.0	-3.5
Exports of goods and nonfactor services	350.0	546.6	24.7	8.9	8.7	8.5	-3.9	8.8	1.7
Imports of goods and nonfactor services	418.5	585.1	26.5	-9.9	-0.5	3.6	-11.7	-5.2	-2.3
Foreign balance 2/	-68.5	-38.5	-1.7	4.9	2.1	0.9	2.1	2.9	0.9
Gross social product	1,553.1	2,211.1	100.0	2.2	1.5	2.5	0.3	0.9	-2.6
				(Per cent change)					
Incomes									
Nominal gross social product				34.0	42.4	23.0	27.4	21.0	27.5
Nominal aggregate wages 4/				24.4	37.5	22.0	31.0	...	30.0
Average nominal wage 4/				20.5	33.6	20.0	28.5	...	27.5
Real wage 4/				-8.3	-5.1	--	-2.8	-7.0	-4.0
Prices									
GSP deflator				31.0	40.2	20.0	27.0	20.0	31.0
Retail prices				30.4	46.0	20.0	29.5	28.0	33.0
Retail prices (growth during year)				39.2	39.3	15.0	30.7	20.0	30.0

Sources: Federal Statistical Office, Indeks; data provided by the Yugoslav authorities; and staff estimates.

1/ Resolution for the Annual Plan for the year indicated.

2/ Changes in per cent of preceding year's GSP in constant prices.

3/ Changes for 1982-83 represent "unallocated consumption," the discrepancy between demand and production estimates (see RED for explanation).

4/ Aggregate wages are equivalent to the Yugoslav concept of total net personal income from employment; the average wage is equivalent to net personal income per worker. These wage data refer to the socialized sector, which includes "noneconomic" activities but excludes individual workers.

On the external side, some progress has been achieved. The current account deficit vis-à-vis the convertible currency area, which had peaked at US$3.3 billion in 1979, was reduced to US$1.8 billion in 1981 (Table 6). Policies for 1982 were intended to strengthen the rate of improvement achieved in preceding years, but the deficit for that year is now estimated to have declined only to US$1.4 billion. Furthermore, the reduction in the deficit, at least since 1981, cannot be regarded as a sustainable move toward internal or external balance, since it has been brought about mainly by a reduction of imports sufficiently large to begin to impede output. Imports from the convertible currency area have fallen continuously since 1979--from US$11.3 billion to an estimated US$9.6 billion in 1982. 1/ This decline in nominal terms reflects an estimated fall in real terms in excess of one quarter over the period.

The constraint on imports in part reflects the disappointing performance of exports of goods and services, which rose considerably less than anticipated. Exports of goods to the convertible currency area rose from US$4.8 billion in 1979 to US$5.7 billion in 1980, but subsequently have remained around that level. In addition, the surplus on the invisibles account fell from its peak level of US$3 1/2 billion in 1980 to under US$2 1/2 billion in 1982. Up to 1980, net capital inflows in excess of US$1 1/2 billion per annum (including errors and omissions) were considered normal and would thus have covered the current account deficit recorded in 1982. Since 1980, however, the capital account position has deteriorated rapidly and by 1982 capital transactions resulted in a small net financial drain.

In the three years since 1979 the balance on current account transactions in nonconvertible currencies has moved from sizable deficit to an estimated surplus of nearly US$1 billion. There was a substantial rise in the value of imports in nonconvertible currencies between 1979 and 1981, but the value of exports more than doubled over this period. As a result, the trade balance in nonconvertible currencies moved from a deficit of US$655 million in 1979 to a surplus of US$557 million in 1981. An improvement in the terms of trade and a reduction in the volume of imports from the U.S.S.R. led to a further rise in Yugoslavia's trade surplus in nonconvertible currencies in 1982 to almost US$700 million (see recent economic developments paper).

1/ The use of statistical exchange rates for the conversion of foreign currencies into dinars makes intertemporal comparisons of trade flows difficult, though balance calculations tend to be somewhat less distorted. The use of different sets of statistical rates in the calculation of projections and outturns make those discrepancies also difficult to interpret.

Table 6. Yugoslavia: Balance of Payments with the Convertible Currency Area

(In millions of U.S. dollars)

	1979	1980	1981 1/	Official estimates: Original projections 1982	Official estimates: Preliminary Outturn 2/ 1982	Official estimates: Preliminary outturn, First half 1982	Official estimates: Preliminary outturn, Second half 1982	Staff projections: Full year 1983	Staff projections: First half 1983	Staff projections: Second half 1983	Staff projections: First half 1984
A. Goods and services and unrequited transfers	-3,304	-2,203	-1,821	-500	-1,420	-1,543	123	-500	-1,100	600	-700
Exports, f.o.b.	4,766	5,656	5,720	7,730	5,858	2,746	3,112	6,300	2,970	3,330	3,300
Imports, c.i.f.	-11,336	-11,321	10,600	-12,885	-9,637	-4,997	-4,640	8,600	-4,275	-4,325	-4,450
Trade balance	-6,570	-5,665	-4,880	-5,155	-3,779	-2,251	-1,528	-2,300	-1,305	-995	-1,150
Services and unrequited transfers (net)	3,266	3,462	3,059	4,655	2,359	708	1,651	1,800	205	1,595	450
B. Long-term capital											
Long-term capital received (net)	1,335	2,065	818	460	114	128	-14	907	684	223	200
Drawings	2,903	3,909	2,513	2,650	1,804	989	815	3,750	2,270	1,480	1,350
Repayments	-1,568	-1,844	-1,695	-2,190	-1,690	-861	-829	-2,843 4/	-1,586 4/	-1,257	-1,150
Long-term loans extended (net)	-123	-235	-235	-250	-175	-51	-124	-200	-75	-125	-100
Total	1,212	1,830	583	210	-61	77	-138	707	609	98	100
C. Short-term capital (net)	218	739	167	-500	-506	-340	-166	--	--	--	--
D. Allocation of SDRs	37	37	38	--	--	--	--	--	--	--	--
E. Errors and omissions	491	-575	598	198	412	726	-314	--	--	--	--
F. Total (A through E)	-1,346	-172	-435	-592	-1,575	-1,080	-495	207	-491	698	-600
G. BIS - bridging loan									500	-500	
H. Reserve movements											
Use of Fund credit (net)	218	304	672	592	563	303	260	421	316	105	100
SDRs	-34	41	--)								
Reserve position in the Fund	81	--	--)								
Gold	-4	-5	--)								
Official foreign exchange (increase-)	1,085	-168	-237	--	1,012 3/	777 3/	235 3/	-628	-325	-303	500
Total	1,346	172	435	592	1,575	1,080	495	207	491	-698	600

Sources: National Bank of Yugoslavia; and staff estimates.

1/ Computed on the basis of statistical conversion rates of currencies (other than the dinar) to the U.S. dollar which also applied in 1982. For 1981, use of these rates tends to underestimate marginally balance of payments flows.

2/ The use of statistical exchange rates in 1982 resulted in a significant, but uneven, overestimation of most balance of payments flows in convertible currencies depending on currency composition. Staff calculations suggest that trade flows with the convertible currency area are overstated in 1982 by about 4 per cent, while services such as workers' remittances and tourist receipts are overstated in excess of 7 per cent.

3/ Including reserves reduction of commercial banks.

4/ Includes repayments related to the cleaning up of arrears.

2. The economy in 1982

The performance of the economy fell short of the adjustment objectives in several major respects as described in EBS/82/181. During the first half of the year, nominal personal incomes rose faster than anticipated, and part of the progress made earlier in reducing inflationary pressures was inevitably reversed. Consequently, the inflation rate for the year as a whole was expected to be at least twice that incorporated in the program. By late summer, it was evident that both domestic and external developments were diverging dangerously from those expected at the beginning of the year, and that the adjustment effort needed to be intensified.

Although expansion of domestic credit by the banking system remained within the agreed bounds through early fall, interenterprise credit--and with it accounts receivable--expanded rapidly. As a result, the liquidity constraints on enterprise behavior, and particularly on their ability to increase personal income, were significantly less than would have been expected from the slowing pace of activity and from the limitations on access to bank finance.

On the external side, imports from the convertible currency area were falling more rapidly than anticipated, partly as a result of curtailed access to foreign exchange following the introduction of the temporary law on foreign exchange and credit transactions with foreign countries in May 1982 (see forthcoming recent economic developments paper), which in turn was motivated in part by the rapid deterioration in the reserve position. Nonetheless, the projected US$1 1/4-1 1/2 billion improvement in the current account balance in convertible currencies looked increasingly unattainable. Export revenues, particularly from sales to the developed countries, were not rising as projected and the surplus on invisible transactions was declining. In addition, pressures on the capital account continued to increase. Although the outflow of short-term deposits was associated largely with the liquidity problems of one major bank in Zagreb, the external financial resources of the banking system as a whole also declined sharply, and there was little prospect that these developments could be reversed in the second half of 1982.

In response, the federal authorities decided to depart from the growth goals incorporated in the 1981-85 Plan, and, in order to achieve a sustainable balance in the economy, adopted additional measures to reduce both domestic demand and inflationary pressures and to increase exports. These measures included greater restraint on personal incomes, severe restrictions on the extension of credit for investment purposes, and a selective price freeze for a period of six months starting July 1982. They were subsequently buttressed by a rise in the level of interest rates, a 16.7 per cent devaluation of the dinar, steps designed to ensure that essential imported inputs were available for export-oriented industries, but to limit other imports, and administrative measures to conserve foreign exchange resources.

The administrative measures adopted in October 1982 included, in particular, limitations on the cash withdrawals from resident foreign exchange accounts to US$250 per account per month, although no limit was placed on the drawing of foreign currency checks against such accounts. For Yugoslav nationals going abroad, progressively rising noninterest-bearing deposits linked to the number of border crossings were introduced and the import of goods by private residents was limited to Din 1,500 per border crossing. Stringent rationing of gasoline (40 liters per automobile per month) was imposed, and other energy conservation measures were adopted. Expenditure ceilings on the federal budget were strictly maintained in the face of higher-than-expected inflation.

During the first nine months of 1982, prior to the decision to effect a step devaluation of the dinar in October, the exchange rate of the dinar vis-à-vis the U.S. dollar had depreciated by some 20 per cent (see Chart 2 and the forthcoming recent economic developments paper). In nominal effective terms, the depreciation of the dinar amounted to almost 15 per cent according to the payments-weighted currency basket of the Yugoslav authorities, but to less than 9 per cent according to a trade-weighted basket, which accords a smaller weight to the dollar. In real effective terms the rate remained roughly constant according to the payments basket, but appreciated by almost 5 per cent according to the trade-weighted basket. In view of the importance of West European markets for the Yugoslav economy, not only for merchandise exports but also for tourism, and the disappointing performance of Yugoslav exports on these markets, the authorities devalued the dinar by 16.7 per cent on October 21. From October 21 until the end of the year, the rate of the dinar depreciated slightly in terms of the official currency basket but remained virtually unchanged in real effective terms.

Partly under the impetus of the policy measures implemented in the second half of the year, and partly because of external constraints, real GSP for the year as a whole is estimated to have remained virtually unchanged. Domestic demand is estimated to have fallen 1.8 per cent below its 1981 level. Although the emergence of a large, positive statistical discrepancy between production and demand estimates throws some doubt on the estimated changes in the individual components of demand, it is clear that fixed investment continued to fall significantly, and that public and private consumption trended downward as well.

The preliminary outturn for the public sector accounts shows a small surplus in 1982 and the share of public sector expenditures in GSP is estimated to have fallen by about 1/2 percentage point, to 35.0 per cent, in 1982 compared with 1981. As regards credit policy, the National Bank found that the use of quarterly ceilings on the credit extended by the banking system had permitted significant intraquarter variations; it therefore, has imposed monthly ceilings. Although bank credit rose just fractionally more than had been programmed, the rise of money supply, M1, as well as that of quasi-money, appears to have exceeded that estimated as being consistent with the criteria incorporated in the 1982 stabilization plan by a considerable margin. M1, according to preliminary data, has risen by almost 27 per cent during the 12 months ending December 31, 1982, over 10 percentage points more than the 15.5 per cent planned, and just about 2 percentage points less than nominal GSP. The dinar component of quasi-money is estimated to have risen by 19.2 per cent over the same period (Tables 7 and 8).

The current account deficit with the convertible currency area in 1982 is estimated at US$1.4 billion, about US$ 1/2 billion below the outturn for 1981, but well above the US$ 1/2 billion that had been targeted. More sluggish than expected growth of export markets, the heavy concentration of Yugoslav exports in cyclically sensitive products, and the large proportion of Yugoslav exports affected by trade barriers in partner countries contributed to this outturn, but a lack of competitiveness certainly was also a major factor. The volume of exports to the convertible currency area fell by an estimated 2 1/2 per cent in 1982. 1/ Thus, the reduction in the trade deficit resulted solely from an unsustainable compression of imports. In 1982 merchandise imports, in volume terms, were estimated to have been about one ninth below their already low 1981 level. In addition, the surplus on services and transfers was reduced by about US$3/4 billion in 1982 as the net inflow of emigrants' remittances and net earnings from tourism fell by about US$1/2 billion and US$1/4 billion, respectively, and interest payments rose. As the need for stronger adjustment efforts became increasingly clear in a world climate in which domestic and international liquidity problems led to a reassessment of international credit risks generally, and of the position of some countries near to Yugoslavia in particular, the net capital position deteriorated, and in 1982 as a whole turned negative by an estimated US$150 million. 2/

III. Policies and Prospects for 1983

At the time the Yugoslav authorities fashioned their 1983 economic plan they were faced with a situation in which official reserves had approached minimal levels and large debt repayments were falling due. In addition, stocks of imported raw materials had been greatly depleted, and production, both for the domestic market and for exports, was being hampered by a lack of imported inputs. Finally, no new financial credits, which could have relieved the situation, were in the pipeline. Against this background, the authorities decided that their central aim of policy was to continue to meet all external payments obligations in an orderly manner.

1. Policies

The measures that have been adopted to help solve the current critical external situation were taken partly in the context of the medium-term policies which aim to bring about correction of the structural problems discussed in earlier papers, and in part with an eye to achieving

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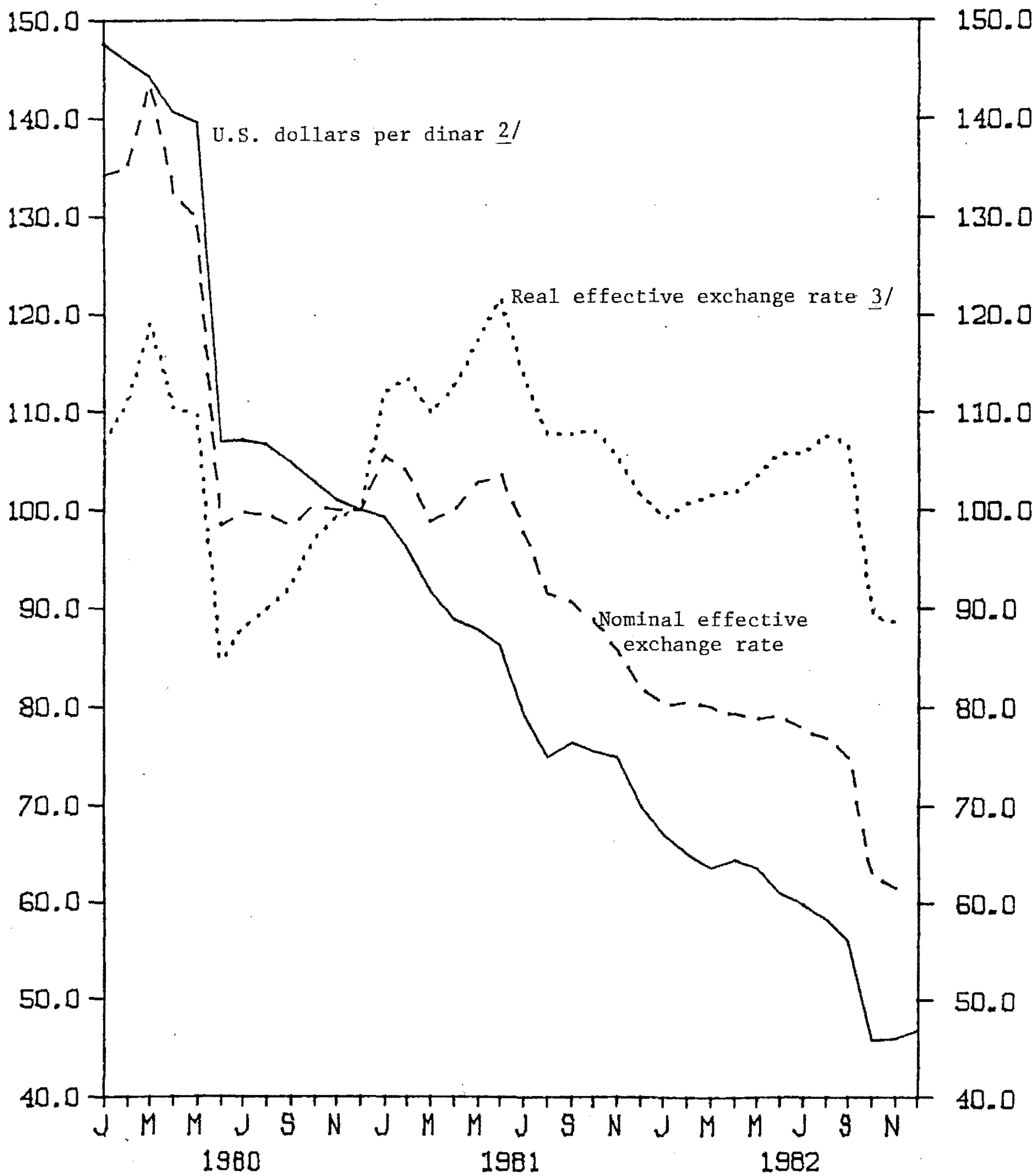
1/ On the basis of official estimates.
2/ Excluding use of Fund credit, but including errors and omissions.

Chart 2

Yugoslavia

Exchange Rate of the Dinar 1/

(End of December 1980 = 100)



Sources: IMF, International Financial Statistics; staff estimates; and data provided by the National Bank of Yugoslavia.

1/ Nominal and real effective exchange rate indices are based on the European Department's exchange rate indices (bilateral trade weights).

2/ End-of-period values.

3/ Adjusted for relative producer prices.

Table 7. Yugoslavia: Actual and Projected Net Domestic Assets of the Banking System

	1981 Dec.	1982 June	1982 Dec. a/	1983 June	1983 Dec.	(2)/ /(1)	(3)/ /(1)	(4)/ /(3)	(5)/ /(3)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	(Levels in billions of dinars)					(Percentage changes)			
1. Net foreign liabilities 1/	537.1	572.6	587.9	615.2	627.7	6.6	9.5	4.6	6.8
2. Money (M1)	584.3	616.3	739.8	784.5	828.3	5.6	26.6	6.0	12.0
3. = 4+5 Quasi-money	1,231.6	1,321.1	1,386.7	1,446.0	1,575.2	7.3	12.6	4.3	13.6
4. Foreign exchange deposits 1/	668.2	687.5	713.8	717.7	782.2	2.9	6.8	0.5	9.6
5. Other quasi-money	563.4	633.6	672.9	728.3	793.0	12.5	19.4	8.2	17.8
6. = 1+2+3 Net domestic assets	2,353.0	2,510.0	2,714.4	2,845.7	3,031.2	6.7	15.4	4.8	11.7
Nominal GSP 2/	2,534	2,789	3,254	3,684	4,178	21.2	28.4	28.1	28.4
Income velocity 2/						8.7	6.2	14.0	14.5

Sources: National Bank of Yugoslavia; and staff estimates.

a/ Preliminary.
1/ Adjusted for exchange rate changes.
2/ Percentage changes at annual rates.

EBS/83/46
Corrected: 3/9/83

Table 8. Yugoslavia: Monetary Survey, 1980-82

(In billions of dinars)

	1980	1981		1982		
	Dec.	June	Dec.	June	Sept.	Dec. 1/
Net foreign assets	-254.5	-329.3	-375.1	-436.1	-468.9	-587.9
Domestic credit	1,568.3	1,750.7	1,927.8	2,108.3	2,211.1	2,369.2
SBA definition 2/				2,076.3	2,159.4	2,256.0
Money supply	461.6	506.0	584.3	616.3	664.9	739.8
Quasi-money	768.7	851.4	1,030.0	1,157.1	1,210.0	1,386.7
Other items (net)	83.5	64.0	-61.6	-101.2	-132.7	-345.2

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

1/ Preliminary estimates.
2/ Excludes changes in the dinar valuation of foreign currency denominated loans arising from changes in the exchange rate.

relatively quick results. In both respects, however, immediate policy action was limited to measures that could be effectively implemented in a federal state. These measures are described below.

a. Incomes policy

The Government considers its policy of restraining the growth of personal incomes to be a central element of its medium-term stabilization program. Steps have been taken to prevent renewed surges in personal income, such as occurred in the last quarter of 1981 and early 1982. Accordingly, the Yugoslav authorities have resolved that nominal personal income per worker should remain unchanged between the fourth quarter of 1982 and the first quarter of 1983, despite the fact that the rise in the fourth quarter, which is generally large on account of seasonal factors, appears to have been rather muted in 1982. For 1983 as a whole, the Government has adopted a target of reducing real personal income per worker 7 1/2 per cent below its 1982 level. Enterprises are to limit the growth in payments of personal incomes to that of current net enterprise income. The past practice of determining wage payments on the basis of prospective income streams of enterprises, which in turn were influenced by strong inflationary expectations, had been a major factor in fueling inflation. Therefore, any move toward a known base could strengthen the control mechanism significantly.

The growth of nominal incomes in the social (nonenterprise) sector is planned to be at least 7 percentage points lower than in the enterprise sector. For the federal administration, the differential is to be at least 9 percentage points. Personal incomes in the enterprise sector are paid in accordance with self-management agreements and social compacts and are not determined by the Federal Government. However, the Social Accounting Service (SDK), which executes virtually all payments made by enterprises, can monitor payments not in line with the incomes policy undertakings. Furthermore, if the results of the first quarter exceed the level registered in the fourth quarter of 1982, the Federal Government stated that it will activate its legal powers to enforce an adequate intervention mechanism so as to rectify the overruns and to prevent further breaches of the understanding.

b. Price policy

The Government has decided that over the next two years domestic prices will be brought broadly in line with international prices in order to reduce the price distortions that currently permeate the economic system and adversely affect the efficiency of production. In addition, prices are to reflect increasingly the balance of domestic demand and supply. As the first major step in this direction, prices of certain key commodities, such as electricity, coal, railway fares, live animals, and meat, have been raised by 25-35 per cent. Further, steps to increase prices of petroleum products by 25 per cent will be taken by the Federal Executive Council early in March 1983, and rents will rise by 30 per cent during the first half of 1983. New price distortions will not to be allowed to arise. The direct effects of these price increases on the cost of living index are officially estimated at 4 1/2 percentage points. Apart from these price increases, those associated with the depreciation of the dinar and those resulting from the earlier decontrol of prices of certain nonindustrial goods and services, the Government will maintain its current selective price freeze through June 1983.

c. Fiscal policy

Fiscal policy for 1983 aims, as in 1982, to achieve a further reduction of the share of public expenditures in GSP. The overall budgets of the Federation and the other public sector entities are traditionally in balance and, as in 1982, no net new credits are to be extended by the National Bank of Yugoslavia to finance the budget of the Federation. For 1983, both public sector revenues and expenditures are estimated to increase by 13 per cent. These estimates are based on an officially projected inflation rate of 20 per cent in 1983 and, therefore, imply a significant fall in real public sector expenditures. The rise in transfer payments, which is normally linked to the rate of growth of nominal personal incomes, is to be held to 18 per cent. Any revenues in excess of these expenditure ceilings will be returned concurrently to the economy at large.

The authorities have agreed that a breach of either one of the expenditure ceilings will trigger the legislative process enabling them to freeze excess revenues in a blocked account at the National Bank of Yugoslavia. Because expenditure data are not available in a timely fashion, the expenditure ceilings will be monitored through the relevant revenue data. Thus, any increase in either category of revenues for three consecutive months as compared with the same months a year ago in excess of the agreed ceilings, will be taken as a signal that the associated expenditure ceiling has been broken. In such a case, the Government will seek legislation that will result in monthly set-asides of accumulated and projected excess revenues, such set-asides to be frozen until at least 1985. Furthermore, any surpluses that materialize at the end of 1983, despite the monthly measures to redistribute them, will be placed in such a blocked account until at least 1985.

The expenditure ceilings the Government has adopted are quite tight compared both with the preceding year and with the projected growth in nominal GSP for 1983. As such they imply, inter alia, a large reduction in the real incomes of public sector employees. This fall is an important element in the Goverrment's overall incomes policy and should help facilitate general compliance with the Government's target of a reduction in the real personal income per worker of 7 1/2 per cent in 1983 over 1982.

d. Credit policy

In the first two years of the stand-by program, monetary and credit policies proved not to be sufficiently restrictive, in large part because of unforeseen increases in the income velocity of circulation of narrow money. The sharp rise in the item "other domestic assets of the banking system" in 1982 also permitted domestic liquidity (M2 including foreign exchange deposits) to increase at a considerably faster rate than originally forecast. For 1983 the monetary authorities will revert to conducting their monetary policy on the basis of the change in the stock of net domestic assets of the banking system (NDA), thereby broadening their control mechanism compared with the previous mechanism of limiting domestic credit expansion only. The National Bank also formalized its recent steps to improve control over credit developments during each quarter by adopting ceilings expressed as the average of the three end-month data of each quarter, instead of using end-of-quarter ceilings. As noted above, no new credits are to be extended by the National Bank of Yugoslavia to the Federal Government during 1983.

The increase in the stock of net domestic assets over the 12 months to the end of December 1983 is to be limited to 11.7 per cent, and that for the 6 months to the end of June 1983 to 4.8 per cent (Table 7). This is consistent with an increase in money supply (M1) of 12 per cent during 1983 and implies a 14.5 per cent increase in the income velocity of narrow money. The rise in the dinar component of the broader monetary aggregates, estimated at 18 per cent, is substantially higher than that estimated for money, narrowly defined. This is in contrast with developments in 1982 and mainly reflects the increases in deposit rates, described below, which should encourage a shift from M1 to M2. The increase in quasi-money including foreign currency deposits, but after adjustment for exchange rate changes, is projected to be only slightly above that of M1. Since about one half of quasi-money consists of foreign exchange deposits of households with domestic banks, changes in these deposits materially affect the growth of quasi-money. For 1983, the limitations put on the use of these accounts in particular, and the continued external constraints generally, are likely to hold their growth below that experienced prior to 1982.

The change in quasi-money associated with the agreed exchange rate policy described below is excluded from the calculation of the ceiling on NDA. This approach is justified because these deposits are held primarily as a store of value, the more so now that domestic use of foreign exchange has been curtailed by administrative measures. Further, the differential rate of return in favor of foreign exchange deposits, taking into account exchange rate developments, remains large compared with that on dinar deposits, again limiting the expected conversion into dinars. Finally, projection of the change in the dinar value of the major currencies in which such deposits are held, and of any associated shifts in their currency composition, is extremely tenuous.

A major problem in the control of domestic credit has been the very large and growing amount of unsecured interenterprise credit. The Government has moved to speed up legislation that aims to bring such credits under control, and it is agreed that this legislation will be passed before the end of May 1983. The legislation will amend the law on the functions of the SDK and specifies the order in which enterprises must settle their various payment obligations. In doing so, the payments of personal incomes and of contributions to the communities of interest (for social consumption expenditures) are accorded the lowest priority. If an enterprise, after meeting its higher priority obligations, does not have sufficient liquid resources to meet its agreed personal incomes payment schedule, employees incomes will be reduced to the minimum guaranteed income prevailing in the republic or community in which the enterprise operates. Minimum guaranteed incomes are estimated to average about 55 per cent of personal incomes paid in the preceding 6-12 months according to regional regulations. This priority mechanism, if strictly enforced, would, together with the rise in interest rates, described below, contribute materially toward strengthening the financial discipline exercised by enterprises and, in particular, motivate creditors to start collecting outstanding bills and make debtors more cautious about borrowing on an unsecured basis.

The Government expects that implementation of this law will decrease the outstanding amount of unsecured bills by a minimum of Din 50 billion in 1983. The stock of such bills was estimated to be Din 169 billion in September 1982. The Government will include new measures in the law in order to strengthen the penalty mechanism and to ensure its effective implementation. However, if by September 1983 it appears that the projected reduction in the stock of outstanding unsecured bills is not being achieved, the Government will consult with the Fund on the efficacy of the sanction mechanism with a view to strengthening it further as needed.

e. Interest rates

The authorities have accepted the principle that interest rates should afford lenders a real positive rate of return in order to encourage savings in financial assets and to improve the efficiency and financial viability of investment. However, movement toward this goal has been very slow. Because of the past and current heavy subsidization of the cost of credit, full and immediate implementation of the Government's interest rate goals would necessitate so large an increase in interest costs that it would put most enterprises under great liquidity strains. Furthermore, the basic tenet underlying the Yugoslav economic system is that the employment of the population should be assured, and this implies that sufficient credit should be available to enterprises caught in a financial squeeze to allow production to be maintained. Finally, differing regional interests make interest rate policy a highly politicized subject, not least because subsidization of interest rates rather than outright grants has been a major instrument for the promotion of investments in less developed regions.

Accordingly, the authorities in the past have tended to take a passive attitude toward the attainment of positive real interest rates, hoping to bring inflation rates down to or below the level of interest rates rather than raise the latter. They now have agreed that substantial moves toward a more rational structure of interest rates can no longer be postponed. Accordingly, they have decided to raise the cost of funds to the banking system significantly. This rise is being achieved by increases in deposit rates and in the rates charged by the National Bank on discounts and on selective credits. In addition, two new deposit instruments, introducing three- and six-months maturities carrying interest rates of 12 and 15 per cent, respectively, have been made available to households (see Table 9).

The new rates of interest are calculated to increase the annual cost of funds to the banking system by some Din 53 billion. This will force an increase in interest charges on new nonpriority loans by at least 10 percentage points, from their current level of slightly more than 20 per cent to more than 30 per cent, on average. Depending upon the portfolio structure of individual banks, some nonpriority borrowers could be facing charges of over 40 per cent on new credits. Priority lending will, however, remain heavily subsidized. The adjustment of interest rates in early 1983 was agreed against the authorities' inflation target of 20 per cent for the year. If by the time of the midyear review with the Fund the inflation rate is not in line with this target, the need for further adjustment of interest rates (up or down) will be reviewed in relation to the authorities' medium-term objective of moving toward positive real rates of interest.

f. Exchange and trade policies

The authorities agree that a successful adjustment effort requires adequate incentives for a sustained expansion of export production, and that import decisions should be based on a realistic assessment of the cost of foreign exchange. To this end, they intend that the exchange rate of the dinar move toward a market-clearing rate. The difficulties caused by the present fragmentation of the foreign exchange market frustrate this aim. Further, the pressures on the balance of payments and the shortage of foreign exchange led to sharp cutbacks in imports in 1982. The *de facto* linking of imports to export earnings under Yugoslavia's system of exchange allocation by self-management agreements among enterprises underscored the problem.

The temporary law on foreign exchange and credit transactions with foreign countries, introduced in May 1982, placed priority on debt repayments in the use of foreign exchange. Self-management agreements concluded on the basis of this law set aside relatively high proportions of current foreign exchange earnings to meet payments for debt service and oil imports. This resulted in a significant reduction of the proportion of foreign exchange earnings that exporters could retain for their own use and, in turn, substantially reduced both their ability to import and existing export incentives. The restrictive stance on the allocation of

Table 9. Yugoslavia: Agreed Interest Rate Schedule

(Per cent per annum)

		Interest Rates as of		
	Weights 1/	End-1981	End-1982	End-Feb. 1983
Deposit money of OALs 2/	0.22	--	1	4
National Bank credits				
Discounts and credits for liquidity	0.03	6-8	14	22 3/
Selective credits	0.20	1-6	4-9	8-12 3/4/
Household deposits with maturities of less than one year				
Sight	0.15	7.5	7.5	7.5
3 months	0.01	...	...	12
6 months	0.01	...	...	15
Restricted deposits of OALs 2/	0.06	--	1	4
Short-term deposits of OALs 2/	0.02	2	3	7-9 5/
Long-term deposits				
Households	0.06	9-10	13-20	18-28 6/
Housing	0.06	3-6	9	13
OALs and other	0.18	3-6	9	17-23 7/

Source: Data supplied by the Yugoslav authorities.

1/ Based on average amounts outstanding for 1983 as estimated by the National Bank of Yugoslavia.
2/ Organizations of Associated Labor.
3/ Effective end-January 1983.
4/ Rates on: credits for exports 8 per cent, agriculture 10 per cent, imports 12 per cent, other 12 per cent.
5/ Range from 7 per cent for deposits of 1-3 months' maturity to 9 per cent for deposits of 6-12 months' maturity.
6/ Rates on deposits for 1 year (18 per cent), 2 years (23 per cent), and 3 years (28 per cent).
7/ Range from 17 per cent for deposits of a maturity of 12 to 18 months to 23 per cent for a maturity of 36 months or more.

foreign exchange for imports was reinforced by a series of measures designed to conserve foreign exchange further and to stem the growth of the parallel foreign exchange market. These included measures to eliminate the use of foreign exchange in domestic transactions, limitations on cash withdrawals from foreign exchange accounts, and mandatory deposits on border crossings (see recent economic developments paper).

The Law on Foreign Exchange Operations and Credit Relations with Foreign Countries was further amended by the Decision on the Common Foreign Exchange Policy of Yugoslavia for 1983, which was promulgated on December 31, 1982. This decision made a number of the temporary regulations adopted in May 1982 permanent and added a number of new provisions. A major new element is an apparently considerable strengthening of the role of federal entities at the expense of the regional communities of interest. The emphasis on the balance of payments positions of individual Republics, that characterized the previous method of allocating foreign exchange, has been downgraded and replaced by a sectoral distribution system. Furthermore, the banking system is being accorded considerably greater responsibility in the allocative system. Commercial banks will be responsible for ascertaining that any foreign borrowing by enterprises will be for projects that generate a sufficient flow of convertible currency to meet repayment and interest schedules. The commercial banks will be required to issue a guarantee to the National Bank of Yugoslavia that each foreign credit is thus secured. In addition, Yugoslav enterprises borrowing foreign exchange from a domestic bank will be required to repay these banks at the market rate of exchange of the date of repayment rather than passing the exchange rate risk of foreign currency indebtedness to the banking system, as they were able to do in the past. In order to strengthen the authorities' supervisory capabilities, enterprises will be limited to one foreign exchange bank account and will have to consolidate all their accounts into a single account by July 1, 1983.

As in previous years, the Federal Executive Council continues to be responsible for exchange rate policy. But the National Bank of Yugoslavia is required to formulate guidelines for the maintenance of a realistic exchange rate for the dinar and set such a rate in regular consultations with the banking system. It will also establish the liquid foreign exchange requirements of domestic commercial banks and see to it that any bank's excess liquidity is sold into the market or lent on to other banks.

The law establishes a mandatory allocation system for the foreign exchange earnings of enterprises. The implementation of this transfer system has not been fully agreed as yet. The indications currently are that enterprises will be allowed first to meet their own debt and trade credit obligations and essential import needs. The remaining foreign currency receipts are allocated according to a strict order of priorities. First, 25 per cent will go to the Federal sector: 5 per cent for the Federal administration, 3 per cent into the reserves of the National Bank and 17 per cent for energy supplies. The allocation for energy supplies may be revised after the first quarter.

The next priority, for which percentages are yet to be established on the basis of self-management agreements under the aegis of the Community of Interest for Economic Relations with Foreign Countries, provides foreign exchange for imports by suppliers of export-oriented enterprises, for those whose production is based on established import needs, but who do not participate in export activities and for some other users in the productive sector. The third priority is to provide for the needs of the republican and communal governments. Although these percentages also have not been agreed at this time, it is fully expected that they will be well below the 5 per cent allocation for the Federal Administration. Finally, there is an allocation to infrastructure and miscellaneous other needs. Any remaining foreign exchange will need to be sold to authorized banks.

The net effect of these changes in the allocative system is difficult to assess. Clearly, there is some trade-off between the loss of the use of the retention quota--amounting to an estimated 20-30 per cent of export revenues in the second half of 1982--and some greater certainty of the ability to obtain necessary imported inputs for exports. Still some, currently not quantifiable, loss of export incentive appears certain. The extent of this loss depends also on the success, or otherwise, of the measures to reduce the fragmentation of the foreign exchange market and to increase the size of the interbank market for foreign exchange.

The priorities in the amended system of allocating foreign exchange are largely based on the size of hard currency return flows. An active exchange rate policy is considered an indispensable corollary to this system. The devaluation of the dinar by 16.7 per cent in October 1982 helped improve the international competitiveness of Yugoslav exports. But it was not sufficient to reverse the erosion of incentives for production of exports compared with those for production for the domestic market that had occurred since the devaluation of mid-1980. This erosion must also be seen against the urgent need for an improvement in the growth and the structure of Yugoslav exports to the convertible currency area. Against this background, the authorities let the dinar depreciate modestly from the end of December so that in nominal effective terms the value of the dinar at end-January was about 7 3/4 per cent below its level of October 21, 1982. Before mid-March, the exchange rate is to be depreciated by a further 6 per cent over and above the adjustment needed to bring about some additional improvement in the real incentives to the export sector. During the remainder of 1983, there will be steady adjustments, at least monthly, so as to assure a continuing gradual improvement in these incentives.

Restrictions on payments and transfers for current international transactions are maintained in accordance with the transitional arrangements under Article XIV, with the exception of the restriction on the availability of exchange for foreign travel which is maintained under Article VIII. This restriction arises from the limitation on the export and import of dinars to Din 1,500 per person for the first trip and

Din 200 per person for each subsequent trip during the year. This measure was introduced in July 1981 and liberalized in January 1982. Fund approval of this measure was extended in February 1982 until the next Article XIV consultation (EBD/7057-(82/23) adopted February 22, 1982). The authorities indicated that this measure had helped reduce illegal currency transactions and had not had a significant restrictive impact on current payments; they intend to remove the measure as soon as circumstances permit. Furthermore, external payments arrears have arisen in 1983. The authorities currently are in the process of determining the amount of such arrears. They have indicated that they intend to eliminate these arrears as soon as the proceeds of the financing package described on page 41 ff. are received and, in any event, before the August drawing under the stand-by arrangement.

g. Foreign debt

The mounting external debt servicing burden has underscored the need for the Yugoslav authorities to improve the monitoring and coordination of foreign borrowing and the Government intends to exercise strict control over foreign borrowing. The foreign exchange law introduced in May 1982 makes medium- and long-term foreign borrowing by Yugoslav commercial banks subject to the approval of the National Bank, and short-term borrowing subject to the approval of the Federal Executive Council. The amendments to the Law strengthen control over external borrowing further as discussed above.

The National Bank of Yugoslavia will provide to the Fund detailed information on the foreign activities of the Yugoslav banks on a regular and timely basis. Moreover, in 1983 the contracting of new loans with maturities of at least one and up to ten years will be limited to a maximum of US$1.5 billion, of which no more than US$500 million will be loans with maturities of between one and up to three years. The limits exclude borrowing either by the National Bank of Yugoslavia or under National Bank guarantee. Outstanding external debt that falls due during 1983 and that is rolled over, as well as new loans extended to replace maturing debt, will also be excluded from this requirement.

2. Prospects

The policies described above aim to depress domestic demand drastically and to shift resources to the export sector both in the short and medium term. Indeed, the 1983 Plan Resolution projects a fall in real final domestic demand of 10 per cent, with private consumption falling by 6 per cent and fixed investment by 20 per cent. This is intended to make room for a 20 per cent rise in the volume of merchandise exports to the convertible currency area.

The official estimates for 1983, however, are open to question. First, they incorporate an important component termed "unallocated consumption" that permits a large discrepancy--the contribution to growth of which amounts to about 7 per cent of GSP in 1983--to emerge between the output and demand projections (see forthcoming recent economic developments paper). Thus, it is uncertain whether the fall in demand for 1983 is being overestimated or whether output is likely to fall rather than to rise fractionally as planned. Second, given the reductions in demand that already have taken place, the staff believes that neither private consumption nor fixed investment are likely to fall as steeply as planned. The staff assumptions which underlie the program are for final domestic demand in 1983 to be some 4 per cent below its 1982 level, compared with the official projection of a drop of 10 per cent (Table 5). At the same time, the staff also projects the rise in merchandise exports and in tourism to fall substantially short of official expectations and, thus, forecasts a decline in GSP of between 2 and 3 per cent. Estimates of an absolute fall in output in 1983 are supported by the most recent economic indicators, which show the seasonally adjusted index of industrial production down in the fourth quarter of 1982, the volume of retail sales down in the second half of the year, and a small decrease in the volume of exports.

The official forecasts and policies are built around an inflation rate of 20 per cent for 1983 over 1982. However, because of the combined effects of the price and exchange rate decisions detailed above, the Government expects that its inflation forecast will be exceeded by at least 5 percentage points. The staff considers that even the amended official price projection is still too optimistic and expects the GSP deflator in 1983 to be at least 30 per cent or more above its 1982 level. In any event, because the Government is committed to the 13 and 18 per cent rates of growth of public expenditures and transfer payments, respectively, fiscal policy will turn out to be much more restrictive than originally planned.

The immediate purpose of the economic program of the Yugoslav Government is to bring about a further improvement in the balance on current account with the convertible currency area. The Yugoslav authorities postulate for 1983 a surplus with the convertible currency area of US$1 1/2 billion, stemming from a 20 per cent rise in the volume of merchandise exports, a further large fall in the volume of imports, and a substantial recovery of the balance on invisibles. For current account transactions with the nonconvertible currency area, the authorities will aim at a deficit of around US$250 million in 1983.

According to staff estimates the hoped-for surplus on current account with the convertible currency area is not likely to materialize in 1983. In fact, the staff forecasts a deficit of around US$1/2 billion. The cumulative effects of the depreciation of the dinar on the supply of of exportables and on the price competitiveness of Yugoslav goods in foreign markets are expected to become apparent during the course of 1983 and are estimated to contribute to an increase of perhaps 8 per cent in the volume of exports despite an expected near stagnation of export markets. Exports of agricultural products from the excellent 1982 harvest will contribute in 1983 to the looked for improvement. The forecast implies an increase in the dollar value of exports of 11 per cent, to

US$6.3 billion. 1/ Recent staff estimates put the growth of import demand in Yugoslavia's main markets at just over 1 per cent in real terms in 1983 compared with a growth rate of 0.2 per cent in 1982. The export growth projection thus implies a considerable increase in market shares in 1983 after a slight loss in 1982. It is clear, therefore, that even the staff's forecast must lie in the upper range of what is achievable. The growth in market shares also has to be seen in the context of the adjustment efforts made by other countries. Several of these countries are in a situation similar to that of Yugoslavia, namely, the sustainable adjustment that they are seeking depends largely on their ability to improve their export performance since imports have already been reduced severely. The export projection also depends on essential imported inputs being available in sufficient quantities to sustain export output. Merchandise imports from the convertible currency area accordingly could fall by some 10 per cent in nominal terms to US$8.6 billion in 1983 (and a similar magnitude in real terms), with imports of consumer and capital goods continuing to be cut back quite sharply. This assumption is reconcilable with the export assumption so long as it is possible to increase imports from the nonconvertible currency area.

The staff forecasts a reduced surplus of US$1.8 billion on account of invisible transactions in 1983, but there are major uncertainties relating to receipts from tourism and net workers' remittances from abroad. If tourists are not discouraged by real or purported shortages of gasoline and other items and by the measures that have restricted the use of foreign exchange in domestic transactions, the depreciation of the dinar should confer a significant advantage on the Yugoslav tourist trade. This advantage, however, will be much less marked with respect to certain competing tourist centers, such as Greece and Spain, where the exchange rate recently has been devalued. Under current circumstances, therefore, even the staff's forecast of a modest recovery in the foreign exchange value of tourist receipts from the depressed 1982 level may be optimistic. It is also difficult to predict both the extent to which the restrictions placed on withdrawals from foreign exchange accounts will adversely affect the inflow of remittances and the net effect of the high levels of unemployment in European industrial countries on such remittances.

Because of the strong seasonality of the Yugoslav external payments flows, the US$1/2 billion current account deficit on convertible currency transactions for the year as a whole implies a deficit of about US$1 1/4 billion in the first half of the year, partly offset by a surplus of about US$3/4 billion in the second half. As regards the capital

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1/ In 1982 exports and imports tended to be overvalued because of the use of accounting exchange rates. It was expected that market exchange rates will be used in the valuation of trade flows starting in 1983, in which case a comparison with 1982 trade data will, e.g., understate the increase in exports. Percentage changes for 1983 mentioned in this report correct for such bias.

balance, in the first half of the year maturing medium- and long-term debts amount to US$1 1/4 billion and other repayments falling due to US$1 billion. The clearing up of payments delays would add a little under US$1/2 billion to this repayment schedule. Gross financing needs, putting the current account deficit and credits due together, thus total around US$4 billion in the first half of 1983 (Table 10).

Given the low level of Yugoslavia's foreign exchange reserves at the end of 1982, these financing needs could not be met in a normal manner. The financing pattern consistent with the economic program set out in the Yugoslav Government's letter of intent and in the Supplement to that letter attached to this paper, therefore, contemplates a number of interdependent special financing elements.

(1) The National Bank of Yugoslavia has requested the Bank for International Settlements to provide a US$500 million short-term bridging credit contingent upon adequate financial resources becoming available from the international financial institutions and under the intergovernmental financial assistance package under (2).

(2) The representatives of the governments of 15 countries agreed on January 19, 1983 to provide Yugoslavia with new medium-term economic credits totaling about US$1.3-1.4 billion. Less than one fifth, about US$250 million, of this is in the form of financial credits, the remainder consisting of suppliers' credits. The division between financial and commodity credits, however, is somewhat artificial. A part of the financial credits consists of refinancing of maturing export credits, whereas a part of the new export credits will directly relieve cash flow problems by providing medium-term credit for essential imports normally financed by short-term credit or paid for in cash. The total subscribed so far excludes any credits that may be provided by Kuwait, whose representative had joined the 15 governments as an observer and who indicated that his Government, possibly joined by other Gulf States, was contemplating a parallel action.

(3) The governments participating in the cooperative action on behalf of Yugoslavia also decided in principle that official agencies providing credit or credit guarantees for exports to Yugoslavia would not take administrative measures curtailing their ability to continue to provide such funds or cover for such funds.

(4) Commercial banks accounting for up to 60 per cent of Yugoslav liabilities to foreign commercial banks agreed not to ask for payment on maturing debt for the 90 days starting January 18, 1983, providing that Yugoslav financial entities in one way or another co-opted nonparticipating banks into an identical agreement. This would provide a necessary breathing space while all banks with outstanding credits to Yugoslavia would seek agreement on a financing package, that would allow the orderly repayment of maturing debt, coverage of the expected current account deficit in 1983, and some buildup of reserves.

Table 10. Yugoslavia: External Financing Flows on Basis of Financing Package 1/

(In billions of dollars)

	1983 Total	1983 1st half	1983 2nd half	1984	1985
Use of funds					
Current account balance	-1/2	-1 1/4	3/4	--	1/2
Of which:					
Trade balance	(-2 1/4)	(-1 1/2)	(-1)	(-2)	(-1 1/2)
Medium- and long-term maturities	-2 1/2	-1 1/4	-1 1/4	-2 1/2	-2 1/2
Short-term maturities	-2	-1	-1	-2	-2
Other obligations	-1/2	-1/2	--	-1/4	-1/4
	-5 1/2	-4	-1 1/2	-4 3/4	-4 1/4
Sources of funds					
Suppliers' credits	1	1/2	1/2	1 1/2	1 1/4
World Bank, EIB	1/2	--	1/2	1/2	1/2
IMF (net)	1/2	1/4	--	1/4	1/4
Rollover of short-term debt	2	1	1	2	2
Government financial credits	1/4	--	1/4	1/4	1/4
BIS	--	1/2	-1/2	--	--
Bank financial credits	2	1 1/2	1/2	1/2	1/2
	6 1/2	4	2 1/4	5	4 3/4
Reserves change	3/4	--	3/4	1/4	1/2
Memorandum item:					
Interest payments	2	1	1	2	2

Sources: National Bank of Yugoslavia; and Fund staff estimates.

1/ Transactions with convertible currency area on a cash basis. Totals may not add because of rounding.

(5) The Managing Director would, if all the elements of the package were in place, be prepared to recommend to the Executive Board approval of the phased disbursement of the final tranche of the three-year stand-by arrangement (SDR 554 million) approved by the Executive Directors on January 30, 1981, under the conditions set out in the attached letter of intent and in the supplement to that letter. In addition, the Yugoslav Government stated that it will request further stand-by arrangements for 1984 and beyond. In fact, the agreements under (2) and (4) above are conditional upon such a continuation. The World Bank would move as expeditiously as possible to respond to the Yugoslav Government's request for a structural adjustment loan.

So long as all the elements of this interlinked financial package can be put in place, the staff projects that Yugoslavia will be able to meet the payments schedule set out in Table 10. The financing plan incorporates, on the basis of the small current account surpluses projected for 1984 and 1985, some recovery of reserves, which though remaining well below the levels registered on average in 1975-81, should be adequate to meet the seasonal needs in the first halves of 1984 and 1985.

The structure of the projected financial resource package could lead to some increase in net foreign liabilities of the Yugoslav banking system over and above the estimates in Table 7, which sets out the elements underlying the growth of net domestic assets in 1983. If the structure of foreign indebtedness shifts toward a greater proportion of credit provided through the banking system than in the past, foreign liabilities, as defined for purposes of the NDA ceiling, would increase without an offsetting rise in the reserves of the banking system. Under the program, such a change in net foreign liabilities, while leaving the money supply unaffected, would reduce the capability of the banking system to expand domestic credit commensurately.

5. Performance criteria and periodic reviews

Performance criteria for the final year of the stand-by arrangement include (1) limits on (a) the stock of net domestic assets of the banking system, (b) on credit from the National Bank of Yugoslavia to the budget of the Federation, (c) on the expenditures of the public sector and on transfer payments, and (d) on the increase in new medium- and long-term external convertible currency debt; (2) a monthly depreciation of the real effective exchange rate of the dinar; and (3) the reaching of agreement at the time of the midyear review on policies for the remainder of the stand-by period.

Changes in interest rates on bank deposits and on certain credits from the National Bank of Yugoslavia and some changes in domestic prices will have been implemented by the time the Executive Directors consider the request of the Yugoslav authorities for the use of Fund resources.

Most of these changes, in fact, were in place by February 20, 1983. The performance criterion relating to the more comprehensive aggregate net domestic assets replaces the ceilings on domestic bank credit used in the second year of the program.

The attached letter of intent provides for quarterly staff visits to review recent and prospective economic developments and to assess the effectiveness of policies being implemented. Also, soon after mid-year the Yugoslav authorities will review with the Fund developments in the balance of payments, prices, and incomes, and will in particular reassess the role of interest rates and credit policies. It has been explicitly stipulated that the increase in interest rates introduced in January-February 1983 against a target 20 per cent inflation rate during the calendar year will be reviewed in the light of the then-prevailing rates of price increase and that the exchange rate changes agreed upon will be assessed on the basis of actual against projected export performance in the markets of the convertible currency area. Finally, discussions of the credit ceilings for the second half of 1983 will proceed from a basis Din 9.2 billion below the amount shown for December 31, 1983 in Table 7. Such an adjustment was incorporated formally into the June 30, 1983 ceiling in February 1983.

IV. Amendment of Stand-by Period

Because of the unanticipated delay in placing the request for the stand-by arrangement on the Board agenda, the three-year period for which the stand-by arrangement was granted exceeds by one month the period for which the Yugoslav authorities requested a stand-by arrangement. In order to rectify this anomaly the decision proposed below amends the decision granting the stand-by arrangement to provide for an expiration date of December 31, 1983 instead of January 31, 1984. The Yugoslav authorities have been notified of this proposed action.

V. Staff Appraisal

The program proposed by the Yugoslav authorities on the policies to be pursued during the third year of the stand-by arrangement approved in January 1981 is designed to speed the process of structural adjustment in the economy and, thereby, bring about a sustained improvement in the external position of Yugoslavia. It focuses heavily on the reduction of distortions, overt or implicit, both on the investment and the consumption side. The shift in policies will inevitably result in an initial increase in the inflation rate as higher interest rates, adjustments of administered prices, and a more active exchange rate policy sharply change relative prices. Accordingly, the staff believes restraint on the growth of nominal wages to be of vital importance and strongly endorses the view of the Yugoslav authorities that steps must be taken to improve the control of the growth of nominal personal incomes. Incomes policy, for several years, has been a central element of the Yugoslav economic program, but has repeatedly fallen far short of its objectives largely because the mechanism for implementation has been weak. The steps taken by the Yugoslav authorities to improve that mechanism are important, but still do not necessarily eliminate the central weaknesses. The staff has agreed with the Government that it will activate its legal powers in this area if the recorded outcome for the first quarter of 1983 exceeds the fourth quarter, 1982 level. The staff will closely monitor developments in personal incomes during the quarterly visits, with a view to making specific recommendations, and if necessary incorporating them in the mid-year review with the Fund.

The staff recommends that a waiver be granted for the breach of the domestic credit ceiling in December 1982 because the excess was small, 0.4 per cent, because of the manner in which it came about and the steps taken to rectify it. For 1983, monetary and fiscal policies have, in the staff view, been designed in a way to make a greater contribution than in the past to the stabilization program. Fiscal policy is expected to be very tight, with expenditures falling very significantly in real terms. In addition, if, the Government is unable to observe either the 13 per cent limit on the growth of the expenditures of public authorities or the 18 per cent limit on the growth of transfer payments during any consecutive three-month period in 1983, legislation will be sought to freeze revenues in excess of obligations commensurate with the relevent expenditure ceiling until at least 1985. The staff places particular emphasis on this commitment which is expressed in the second paragraph of section III of the supplement to the letter of intent. The placing of what essentially is the "inflation dividend" of the public sector into a blocked account at the National Bank of Yugoslavia could contribute much to the enforcement of the expenditure ceilings and, thereby, make incomes policy more effective. Furthermore, by withdrawing liquidity from the economy at large, the change would automatically tighten monetary and credit conditions.

In the areas of monetary and credit policies, the most important elements are the change to a considerably more active interest rate policy, the steps toward control of the expansion of inter-enterprise credit, and a very tight limit on the growth of net domestic assets. Although the gap between nominal and real rates of interest remains considerable, it is being narrowed significantly. In addition, some, albeit very slow progress is being made in raising nominal interest rates charged for priority credits. In the staff's opinion, it is most important that considerable further progress be made on the occasion of the mid-year review. At that time, it should also begin to be apparent whether the aim to reduce the outstanding amount of unsecured inter-enterprise credit substantially can reasonably be met. If chances appear to be low, the staff will be prepared to suggest measures that can help strengthen the enforcement mechanism. Both, the policies regarding the cost of credit and curtailing the extension of credit outside banking channels represent, in the staff's view, crucially important structural improvements in the Yugoslav financial system.

The staff also supports the determination of the Yugoslav Government to continue to meet external payment obligations in an orderly manner, and its view that the maintenance of such payments is crucial to secure the political and social support essential for the success of the economic stabilization policies that have been adopted, and that are indicated for 1984 and 1985 as well. To be able to meet these obligations in the medium term it is vital that Yugoslav producers be assured adequate incentives to produce goods that are competitive in foreign markets and that can compete with imported goods on the domestic market. The steps already taken to bring about a shift of resources to the tradable goods sector through exchange rate adjustments are useful as is the further strengthening foreseen on a monthly basis for the remainder of the stand-by period. The adjustment in real terms during the period as a whole is estimated to be approximately 24 percent. However, it must be recognized that the effects of these measures will not be fully felt in 1983 or even 1984.

The financing plan set out above and in Table 10 is expected to provide adequate support for the stabilization efforts in the near term. However, there is extremely little margin for error and the injection of net new funds is minimal even under reasonably favorable assumptions regarding the success of Yugoslav exporters of goods and services in taking advantage of increased export profitability in 1983. Conversely, so long as substantial and sustainable improvements can be made in the current account vis-à-vis the convertible currency area, there is a reasonable possibility that spontaneous capital inflows could resume to a greater extent than has been projected. It is also uncertain whether the official target of achieving a deficit in current account transactions in nonconvertible currencies will be reached. But even if Yugoslav exports for nonconvertible currencies could be reduced significantly, there would be great problems in redirecting such exports to the convertible currency because of quality and design difficulties. On the import side, difficulties may be experienced in securing additional oil and other required raw materials from CMEA suppliers, whereas importables currently in good supply could not be absorbed given the Yugoslav policy to reduce investment and upgrade the efficiency of those investments that are being put in place.

The staff hopes that the amended law on foreign exchange will be implemented in a manner that ensures the existence of adequate export incentives and a liberal trade and payments regime. With regard to exchange restrictions under Article VIII, the authorities continue to maintain the restriction on the availability of exchange for foreign travel arising from the limitation on the export of Yugoslav dinars. The staff recommends extension of approval of the travel restriction until February 28, 1984 or the next Article IV consultation, whichever is earlier. External payments arrears have arisen in 1983 and a waiver for the arrears is proposed under the stand-by arrangement. The authorities currently are in the process of determining the amount of existing arrears. The proposed waiver would enable Yugoslavia to make purchases in March and May. The authorities intend to eliminate the arrears by the time the August drawing can be made. The staff recommends that the existence of arrears be approved until August 14, 1983.

The staff is of the strong view that the analysis of developments in and the management of the Yugoslav economy would be much enhanced by the provision of better and more current economic statistics. The official undertaking to prepare balance of payments statistics for 1983 on the basis of current rather than statistical exchange rates, together with the understanding that the National Bank of Yugoslavia will provide the Fund with detailed information on external debt on a regular and timely basis, are important in this respect. There is also a need to improve the statistical base for analyzing and monitoring the financial behavior of the enterprise sector, especially in the area of trade credits.

The staff believes that, with a continuation and, if necessary, a strengthening of the policies outlined in the attached letter of intent and in the supplement to that letter, the balance of risk is positive. The program, while focused first on relieving the immediate liquidity pressures on the Yugoslav external position, is intended to foster the medium-term improvement essential for internal and external balance. For these reasons, the staff recommends Fund support. Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

I. 1982 Article IV Consultation

1. The Fund takes this decision in relation to Yugoslavia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article IV consultation with Yugoslavia conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. Yugoslavia continues to maintain the restriction on the availability of foreign exchange for travel as described in EBS/83/46 (2/24/83). In the circumstances of Yugoslavia, the Fund grants approval for the retention of this exchange restriction until the completion of the next Article IV consultation or February 28, 1984, whichever is earlier. The Fund notes the existence of external payments arrears and the intention of the authorities to eliminate them at an early date. In the circumstances, the Fund grants approval of maintenance of external payments arrears until August 14, 1983.

II. Stand-by Arrangement Review

1. The Government of Yugoslavia has consulted in accordance with paragraph 3(b) of the stand-by arrangement for Yugoslavia (EBS/81/5, Supplement 2 (2/2/81) in order to establish performance criteria subject to which purchases may be made by Yugoslavia during the third year of the stand-by arrangement.

2. The letter from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, dated December 30, 1982, and the Supplement to that letter dated February 18, 1983, setting forth the policies and measures which the authorities of Yugoslavia will pursue for the third year of the stand-by arrangement, shall be annexed to the stand-by arrangement for Yugoslavia, and the letter of January 15, 1981, annexed to the stand-by arrangement, as supplemented by the letter of January 25, 1982, shall be read as supplemented by the letter of December 30, 1982 and the Supplement dated February 18, 1983.

3. Yugoslavia will not make any purchase under the stand-by arrangement that would increase the Fund's holdings of its currency in the credit tranches to more than 25 per cent of quota or increase the Fund's holdings of its currency resulting from purchases of supplementary financing to more than 12.5 per cent of quota

a. during any period in which:

(i) the intention as regards the exchange rate expressed in the last sentence of paragraph 3 of the annexed letter and in section II of the supplement dated February 18, 1983, is not being carried out;

(ii) the intentions as regards interest rates expressed in paragraph 8, sentences 1 through 4, and paragraph 9, sentences 2 through 4, of the annexed letter have not been carried out; or

b. during any period in which:

(i) the data for the preceding period indicates that the limit on outstanding net domestic assets of the banking system described in sentence 4 of paragraph 6 of the annexed letter and as specified in the attached Memorandum of Understanding, Annex 2, as amended by section I of the supplement, has been exceeded; or

(ii) there has been an increase in credit by the National Bank of Yugoslavia to the budget of the Federation, as referred to in sentence 8 of paragraph 6 of the annexed letter; or

(iii) the limit on foreign debt mentioned in paragraph 10, sentences 5 through 7, of the annexed letter and described in the attached Memorandum of Understanding, Annex 4, is not being observed;

(iv) the intentions relating to public sector expenditures stated in sentences 3, 4, and 5 in the first paragraph of Section III of the Supplement are not being observed; or

c. After May 14, 1983, if the progress toward the provision of external bank financing for Yugoslavia, as regards amount and timing, is not sufficient; or

d. After August 14, 1983, if suitable performance criteria have not been established in consultation with the Fund as contemplated in paragraph 12 of the annexed letter or while such criteria, having been established, are not being observed.

4. Purchases under this stand-by arrangement shall not without the consent of the Fund, exceed the equivalent of SDR 1,283 million until May 15, 1983, the equivalent of SDR 1,433 million until August 15, 1983, and the equivalent of SDR 1,533 million until November 15, 1983.

5. The Fund waives the application of the performance criterion in the first subparagraph of paragraph 3 of Decision No. 7058-(82/23) (Review and Consultation under Stand-by Arrangment, adopted February 22, 1982) and waives until August 14, 1983 the application of the performance criterion in paragraph 3(c)(i) of the stand-by arrangement in EBS/81/5, Supplement 2, (February 2, 1981) in respect of the arrears existing during 1983.

6. In paragraph 1 of the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/2/81), the phrase "For a period of three years from January 30, 1981" shall be replaced by "For the period from January 30, 1981 to December 31, 1983."

Fund Relations with Yugoslavia 1/

Membership:	Yugoslavia is an original member of the Fund. It continues to avail itself of the transitional arrangements under Article XIV.
Quota:	SDR 415.5 million.
Use of Fund credit:	Total outstanding purchases of SDR 1,590.3 million, including SDR 242.4 million under the compensatory financing facility, SDR 3.8 million under the oil facilities, SDR 415.5 under the credit tranche, and SDR 928.7 million under the supplementary financing facility.
Fund holdings of dinars:	SDR 2,002.5 million, or 482.0 per cent of quota; 199 per cent of quota, excluding holdings related to the compensatory financing facility, oil facilities, and the supplementary financing facility.
Current arrangement:	Stand-by program covering a period of three years from January 30, 1981 in the amount of SDR 1,662 million (400 per cent of quota), of which SDR 1,357.8 million is being provided under the supplementary financing facility. (SDR 1,108 million had been purchased by end-January 1983.)
SDR position:	Net cumulative allocations amount to SDR 155.2 million. Holdings amount to SDR 1.509 million.
Gold distribution:	Received 177,144 fine ounces of gold in the four phases. Received profits amounting to SDR 32.9 million in the three distributions; US$11.0 million has been transferred to the Trust Fund.
Last consultation:	The staff report for the 1981 Article IV consultation with Yugoslavia (SM/82/24, 2/2/82) was considered by the Executive Board at EBM/82/23/23 (2/22/82). The Executive Board's decision on the 1981 consultation with Yugoslavia (Decision No. 7057-(82/23), adopted June 6, 1980) was as follows:
	1. The Fund takes this decision in concluding the 1981 Article XIV consultation with Yugoslavia in the light of the 1981 Article IV consultation with Yugoslavia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies.

1/ Position as of January 31, 1983.

2. The Fund welcomes the relaxation as of January 1, 1982 of the restriction on the availability of foreign exchange for travel as described in EBS/82/20 (1/29/82), and, in the circumstances of Yugoslavia, the Fund grants approval for the retention of this exchange restriction until the conclusion of the next Article IV consultation with Yugoslavia.

Exchange rate system:

The currency of Yugoslavia is the Yugoslav dinar. The authorities do not maintain the exchange rate of the dinar within announced margins and, therefore, all transactions, with the exception of those effected 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 January 31, 1983 were Din 67.6278 and Din 67.8310 per U.S. dollar, respectively. Rates are quoted for certain other currencies.

Table 1. Yugoslavia: Selected Economic and Financial Indicators, 1980-83

	Actual 1980	Program 1981	Actual 1981	Program 1982	Latest Estimates 1982	Plan 1983	Staff Forecast 1983
	(Annual per cent changes, unless otherwise specified)						
National incomes, prices, and cost:							
GSP at constant prices	2	2	1 1/2	2 1/2	1/2	1	-2 1/2
Final domestic demand	--	--	-4	-2	-4	-10	-4
GSP deflator	31	20	40	20	27	20	31
Retail prices 1/	39	20	39	15	31	20	30
Real wages in socialized sector							
External sector (with convertible currency area)							
Export volume	2 1/2	7	2	12	-2 1/2	20	8
Import volume	-14 1/2	-3	-5	1	-11	-10	-9
Terms of trade (deterioration -)	-1	-5	-5	--	2	--	--
Nominal effective change rate (depreciation -) 2/	-30	3/	-23	3/	-30	...	...
Real effective exchange rate (depreciation -) 2/	-10	3/	-2	3/	-15	...	-24
Federal government							
Total revenue	17	50	51	24	20	24	24
Total expenditure	33	28	29	21	17	25	25
Money and credit							
Domestic bank credit 1/ 4/	28	22	23	16 1/2	17	11 3/4	11 3/4
Central bank credit to Central Government 1/	10	5	4	--	-0.5	--	--
Money (M1) 1/	23	22	27	17	26 1/2	12	12
Velocity (GSP relative to M1)	6	--	11	2	6	4	14 1/2
Interest rate (annual rate, one year savings deposit)	9	...	9	5/	6/	18 7/	18 7/
	(In per cent of GSP)						
Public sector expenditure	39	37	35	35	35	33	34
Federal government expenditure	8	9	7	7	7	7	7
Federal government deficit	1.3	-0.1	0.1	-0.1	-0.1	--	--
Gross fixed investment	34	32	31	28	29	23	28
Money (M1); end of period	30	30	26	26	26	24	24
Current account balance	-4	-2 1/2	-1 1/2	-1	-2 1/2	2 1/2	-1
External convertible currency debt; end of period	23	...	25	...	26	...	...
	(Other ratios and data)						
External debt service ratio on convertible currencies (in per cent of exports of goods and non-factor services)	16	19	25	23	24	27	34
Interest payments in convertible currencies (in per cent of exports of goods and non-factor services)	5	7	14	12	14	12	13
Gross official reserves (weeks of total merchandise imports)	5	6	6	5	3	4	5
Overall balance of payments with convertible currency area (in millions of U.S. dollars)	-172	-350	-435	-592	-1,575	-171	207

Sources: Yugoslav authorities; and staff estimates.

1/ Twelve-monthly change to end of period.
2/ End of year over end of preceding year; Yugoslav payments-weighted currency basket.
3/ The nominal exchange rate was to be adjusted in line with the differential between the change in Yugoslav prices and costs relative to those in trading partner countries.
4/ Stand-by definition; for 1983 refers to net domestic assets of the banking system.
5/ The interest rate on bank deposits of households of one year's maturity was increased to 11 per cent in March 1982. Interest rates were to be reviewed against the background of price developments and prospects in mid-1982.
6/ The interest rate on one-year saving deposits was increased further to 13 per cent on October 1, 1982.
7/ The interest rate on one-year deposits of households were raised to 18 per cent in February but are to be reviewed against the background of price developments and prospects in mid-1983.

Yugoslavia: Review Under Stand-By Arrangement

1. Attached hereto are a letter of the Federal Secretary of Finance and the Governor of the National Bank of Yugoslavia, dated December 30, and a supplementary letter dated February 18, 1983 in accordance with paragraph 3(b) of the Stand-By Arrangement (EBS/81/5, 1/15/81) and paragraph 28 of the letter of the Federal Secretary for Finance and the Governor of the National Bank of Yugoslavia, dated January 15, 1981, setting forth

(a) the objectives and policies that the Yugoslav authorities intend to pursue for the remainder of the stand-by period; and

(b) the understanding of Yugoslavia and the Fund regarding reviews that will be made of progress in realizing the objectives of the program.

2. To support these objectives and policies, the International Monetary Fund will make available SDR 554 million that may be purchased during the year as follows: up to SDR 175 million until May 15, 1983; up to SDR 325 million until August 15, 1983; and up to SDR 425 million until November 15, 1983 subject to the conditions noted below.

3. The letter from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, dated December 30, 1982, and the Supplement to that letter dated February 18, 1983, shall be annexed to the stand-by arrangement for Yugoslavia, and the letter of January 15, 1981, annexed to the stand-by arrangement, as supplemented by the letter of January 25, 1982, shall be read as supplemented by the letter of December 30, 1982 and the Supplement dated February 18, 1983.

4. Yugoslavia will not make any purchase under the stand-by arrangement

a. during any period in which:

(i) the intention as regards the exchange rate expressed in the last sentence of paragraph 3 of the annexed letter and described in Annex I of the Memorandum of Understanding, attached to that letter, as amended by Section II of the Supplement dated February 18, 1983, is not being carried out;

(ii) the intentions as regards interest rates expressed in paragraph 8, sentences 1 through 4, and paragraph 9, sentences 2 through 4, of the annexed letter have not been carried out; or

b. during any period in which:

(i) the data for the preceding period indicates that the limit on outstanding net domestic assets of the banking system described in sentence 4 of paragraph 6 of the annexed letter and as specified in the attached Memorandum of Understanding, Annex 2, as amended by Section I of the Supplement, has been exceeded; or

(ii) there has been an increase in credit by the National Bank of Yugoslavia to the budget of the Federation, as referred to in sentence 8 of paragraph 6 of the annexed letter; or

(iii) the limit on foreign debt mentioned in paragraph 10, sentences 5 through 7, of the annexed letter and described in the attached Memorandum of Understanding, Annex 4, is not being observed;

(iv) the intentions relating to public sector expenditures stated in sentences 3, 4, and 5 in the first paragraph of Section III of the Supplement are not being observed; or

c. After August 14, 1983, if suitable performance criteria have not been established in consultation with the Fund as contemplated in paragraph 12 of the annexed letter or while such criteria, having been established, are not being observed.

Dear Mr. de Larosière:

As stated in our letter of January 15, 1981, we are writing to you to describe the policies and measures to be adopted during the third year of the stand-by arrangement for Yugoslavia approved by the Fund on January 30, 1981.

Policies in 1981 were designed to restore internal and external balance to the Yugoslav economy, and our economic program for 1982 was intended to build on the progress achieved in 1981. In the event, however, personal incomes and enterprise incomes rose considerably faster than anticipated during the first half of the year and, inevitably, part of the progress that had been made in reducing the rate of inflation was reversed. The combination of more buoyant domestic demand than expected and a worsening world economic climate resulted in a disappointing export performance. By mid-year, the Federal Executive Council (the Government) faced the need to strengthen its stabilization program.

Accordingly, the Yugoslav Government took additional measures to contain both domestic demand and inflationary pressures and to increase exports so as to permit the rise in imports necessary to allow production to grow once more. These measures included restraint on personal incomes so as to keep their growth in line with that of net incomes of enterprises and this policy was reinforced by arrangements to roll back any excess payments; severe restrictions on the extension of credit for investment purposes; a significant rise in the level of interest rates and a 20 per cent devaluation of the dinar. In addition, public sector expenditures are being held to their original estimates, despite a higher than expected rate of inflation, and several measures were taken to improve the invisibles account of the current account of the balance of payments.

Partly as a result of these measures, final domestic demand in real terms will fall by 3 3/4 per cent in 1982, substantially more than foreseen in the 1982 Plan Resolution. Personal incomes are expected to fall by 2 1/2 per cent in real terms and the inflation rate, though still too high, has begun to moderate. The current account position has improved significantly in 1982, as the deficit vis-à-vis the convertible currency area narrowed from $1.8 billion in 1981 to less than $1 billion in 1982. The extent of the improvement is, however, inadequate. Exports increased considerably less than expected, in part because of the worsening international demand situation and the associated rise in protectionism. At the same time, service receipts fell and debt servicing payments rose rapidly. The main element in the improved current account situation was a fall in imports so large that it has already begun to impede output.

The Plan Resolution for 1983 gives the highest priority to improving the external liquidity position of Yugoslavia so as to ensure that the Government can meet its international financial obligations. In order to meet these obligations and to rebuild the presently inadequate level of reserves, it has been decided that in 1983 the achievement of a substantial surplus on the current account with the convertible currency area is essential. This objective is ambitious--it implies an improvement in the current account position of at least 4-5 per cent of GSP over the period of the stand-by arrangement. To achieve such a result, it will be necessary to ensure a decline of domestic demand even larger than the declines of the preceding two years. Nominal personal incomes growth will be restrained severely and real personal income per worker is to fall by 7 per cent. No new investment will be authorized except in priority sectors such as exports and energy. Public sector consumption will continue to be restrained as well. The fall in domestic demand is expected to ease price pressures, but to ensure a further decline in the rate of inflation, the measures limiting price increases will be continued into 1983. The policy program is designed to obtain the necessary improvement in the external financial situation in both 1983 and over the medium term. To these ends policies that should show quick results will need to be bolstered by policies that lead to a shift of resources into the export sector, that increase productivity, enhance savings and ensure an efficient allocation of capital resources.

1. For the purpose of supporting its major objectives of increase in exports and production in 1983, the Government considers its policy of restraining incomes as one of the central elements of its medium-term stabilization policy. It is therefore determined to ensure that the experience of the past, when the effectiveness of such policies was eroded over relatively short periods of time, is not repeated. This policy will again be rigorously enforced as regards the personal incomes of those who work for the Federal Government. If the social consensus now achieved regarding restraint on the growth of nominal personal incomes proves less successful than intended, then by midyear the Government will activate the Federation's legal powers to enforce an adequate penalty mechanism.

2. The Government is determined to reduce existing distortions in relative prices, not to allow new ones to arise and to adjust domestic prices in line with world prices. These changes will be made in 1983 and 1984. As the first major step in January 1983, the price of electricity will rise by about 25 per cent; the price of coal by about 25 per cent; prices of live animals and meat by about 29 per cent and railway fares by about 35 per cent (taking into account the increase for this type of transport made in the second half of December 1982). It is expected that retail prices of oil derivatives will increase by about 25 per cent during the first half of 1983. In addition the Government will recommend to the competent regional authorities that they ensure that rents will rise by about 30 per cent during the first half of 1983.

3. To secure a fundamental improvement in the current account, the dinar was devalued by 17 per cent from the end of 1981 to October 21, 1982, by 20 per cent on October 21, 1982, and by a further 8.1 per cent between October 21, 1982 and January 31, 1983. Subsequent to January 31, 1983, the exchange rate will be adjusted steadily to promote a continuing incentive for enterprises to export.

4. Fiscal policy in 1983 will continue to be restrictive and the share of public sector expenditure in GSP will decline further. The joint budgets of the Federation and the other parts of the public sector are

projected to be in balance. Public sector expenditures will be held to a rise of 13 per cent; in the budget plan revenues are estimated to rise by the same amount. If for any reason revenues are higher than foreseen, the surpluses will be placed in blocked accounts at the National Bank of Yugoslavia until at least 1985, in accordance with the aims of the medium-term stabilization plan.

5. Credit policy in 1983 will continue to be restrictive, with the net domestic assets of the banking system being allowed to grow by an amount considerably less than that of the expected rise of nominal GSP. We are determined to ensure that monetary policy fully supports our intention of securing a further reduction in domestic demand and we expect that it also will help control the rise in inflation that will be fueled by the depreciation of the dinar and the rise in prices of specific commodities referred to under paragraph 2.

6. During the last two years we set our monetary targets in the form of limits on the outstanding domestic credit of the commercial banks. However, in order to introduce greater flexibility into this system of control and to reduce some of the uncertainties inherent in it, we have decided to express our monetary targets for 1983 in terms of the growth of the net domestic assets of the banking system, and to base these targets on the average of the figures for three successive end-of-month periods. For the twelve months ending 31st December 1983 we intend to limit the increase in the stock of net domestic assets to 11.7 per cent. In accordance with this intention and on the assumption that the outstanding stock of net domestic assets on December 31, 1982 was Din 2,708.7 billion, we shall ensure that the average stock of net domestic assets for 31st January, 28th February, and 31st March, will not exceed Din 2,755.7 billion and that for 30th April, 31st May, and 30th June 1983, will not exceed Din 2,826.1 billion. The increase in the stock of domestic assets of 5.2 per cent between December 31st, 1982, and June 30th, 1983, is commensurate with a growth in the money supply (narrow definition) of 18.2 per cent (at an annual rate) between these two dates. The Government, however, will seek within the framework of the projected economic developments to remain below the established ceiling for net domestic assets. Dinar counterpart deposits of the Government at the National Bank of Yugoslavia originating from external financial credits will be sterilized. Finally, in 1983, as in 1982, we intend to ensure that no increase in credit will be granted by the National Bank of Yugoslavia to the Federal Government.

7. At the time of the midyear review with the Fund, the appropriateness of the credit ceilings will be reviewed in the light of the developments in the economy, paying particular attention to the external position and the situation in the productive sector. In addition, if at the time of the quarterly review in the spring with the staff of the Fund the position is exessively tight, then we shall reserve our right to request formally an earlier revision of the ceilings.

8. The Yugoslav Government will ensure that the costs of funds to the banking system will be increased by about Din 53 billion in 1983. This increase will be achieved through the rises in interest rates listed in

the attached schedule. The rates of interest directly subject to the control of the National Bank of Yugoslavia (as specified in the attached schedule) will be raised as shown in that schedule during the course of January 1983. The other rates of interest specified in the attached schedule will be raised as shown in that schedule by the 28th of February 1983. As a result of these actions the banks will be forced to raise their lending rates sharply. We estimate that the cost of new credits for nonpriority lending in 1983 will rise to over 30 per cent from a present rate of around 21 per cent. For some banks this rise will be larger.

9. The Yugoslav Government believes that this sharp and unprecedented rise in interest rates, coming on top of significant increases in October 1982, represents the extreme of what can be borne by the economy. However, if by the time of the midyear review with the Fund, the data available show that during 1983 prices have been rising at an annual rate in excess of 20 per cent, which is the Government's target rate, then the Yugoslav authorities will review with the Fund their medium-term objective of moving toward a real rate of interest, with a view to implementing a change in nominal interest rates adequate to ensure that real interest rates develop according to the medium-term policy intentions. The change in interest rates would relate to the schedule of rates and the associated weights used in this letter of intent and attached hereto. It is understood that the Government will in no way change its present price policy as described in the Plan Resolution for 1983. In addition, we shall continue our efforts to promote a more efficient functioning of the Yugoslav financial market and to enhance the role of interest rates in that respect.

10. Because of the deterioration of the maturity profile of our outstanding external debt and continued high interest rates in international markets, which directly affect over one half of our external debt outstanding, debt service has absorbed an increasing share of our convertible foreign exchange earnings in recent years. Debt service payments will amount to about $5 billion in 1983. It is, therefore, the firm intention of the Government to exercise strict control over foreign borrowing by Yugoslav banks. The National Bank of Yugoslavia will provide to the Fund detailed information on the foreign activities of the banks on a regular and timely basis. Moreover, in 1983 the contracting of new loans with maturities between one and up to ten years will be limited to a maximum of $1.5 billion, of which no more than $500 million will be loans with maturities of between one year and up to three years. The limits exclude borrowing by the National Bank of Yugoslavia. Outstanding external debt that falls due during 1983 and that is rolled over will also be excluded from this requirement.

11. Due to the difficult foreign exchange situation in 1982, it was not possible to continue our stated policy of liberalizing the foreign exchange system and of relaxing restrictions on imports. On the contrary, we were forced to take a number of measures to discourage foreign travel and to limit imports by private individuals. It is our intention to resume our policy of import and exchange liberalization as soon as the balance of payments situation permits. In particular, we plan to enhance

the efficiency with which the foreign exchange holdings of the commercial banks are utilized by reducing the present segmentation of the foreign exchange market. In this respect, the exchange rate and interest rate measures described above should prove helpful.

12. We intend to review economic developments in 1983 with the staff of the Fund on a quarterly basis, giving particular attention to developments in the balance of payments, prices and incomes, and taking into account projected developments. The effectiveness of the policies being implemented will be reviewed on these occasions with a view to ascertaining whether changes are called for. In addition, we shall review the developments of the first half of 1983 with the Fund as soon as is practicable after the middle of the year and in any case not later than September 15, 1983. At that time, we shall agree with the Fund performance criteria that are to be established for the second half of 1983.

13. We fully realize that the targets we have are very ambitious, both on the domestic and on the external side. The standard of living will again decline significantly in 1983 and we are looking for a very high level of performance from the export sector. Nonetheless, there is widespread and very strong support throughout our country for our efforts to strengthen the external account, to avoid any disruption in debt servicing, and to reduce external indebtedness, so that the restrictive policies we have adopted will be fully effective. We hope that our efforts will invoke the support of the international community.

Radovan Makić	Joze Florjancic
Governor, National Bank of Yugoslavia	Federal Secretary for Finance

December 30, 1982

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on the Calculation of the Index of the Real Exchange Rate

For the purpose of adjusting the real exchange rate, it is understood that, consistent with the National Bank of Yugoslavia's methodology for calculating the real exchange rate:

(i) The real exchange rate index of the dinar is expressed as 0.48 (U.S. dollars per dinar) plus 0.303 (deutsche mark per dinar) plus 0.047 (Swiss francs per dinar) plus 0.045 (Italian lire per dinar) plus 0.043 (Austrian schillings per dinar), plus 0.027 (French francs per dinar) plus 0.021 (pounds sterling per dinar) plus 0.012 (Swedish kronor per dinar) plus 0.012 (Dutch guilders per dinar), plus 0.007 (Belgian francs per dinar) plus 0.003 (Japanese yen per dinar), with a base of January 31, 1983 equal to 100 for each bilateral exchange rate of the dinar, multiplied by the ratio of an index of the movement in Yugoslavia's industrial producer prices to a weighted index of the movements in industrial prices in the foregoing 11 countries as specified in section (iii) below.

(ii) The index of Yugoslavia's industrial producer prices is the ratio of the price index for the most recent month that is available as of the 15th of each month to the index in the base period which is chosen so as to make the price change cover the same number of months as will have elapsed since January 31, 1983.

(iii) The weighted index of industrial prices in the foregoing 11 countries is defined as 0.48 (index of U.S. wholesale prices for industrial goods) plus 0.303 (index of German prices for industrial products) plus 0.047 (index of Swiss prices for home goods) plus 0.045 (index of Italian wholesale prices) plus 0.043 (index of Austrian wholesale prices) plus 0.027 (index of French prices of industrial goods) plus 0.021 (index of U.K. prices of industrial output) plus 0.012 (index of Swedish prices for domestic supply) plus 0.012 (index of Dutch prices of final products) plus 0.007 (index of Belgian wholesale prices for home goods) plus 0.003 (index of Japanese wholesale prices) with the index for each country expressed as the ratio of the price index for the most recent month that is available as of the 15th of each month to the price index in the base period which is chosen so as to make the price change cover the same number of months as will have elapsed since January 31, 1983.

(iv) Exchange rate and price data used in the calculation of the index of the real exchange rate will be consistent with those published in IMF, International Financial Statistics.

December 30, 1982

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on Net Domestic Assets Ceiling of the Yugoslav Banking System

The banking system for purposes of this ceiling is defined as the consolidated accounts of the national banks and the basic and associated banks. The net domestic assets (NDA) of the above-mentioned banks are calculated to equal the sum of the following items in the monetary survey:

	End-December 1981 (In billions of dinar)
Net foreign liabilities	375.1
Money	584.3
Quasi-money	1,030.0
	1,989.4

In setting the ceiling for NDA the effects of changes in the exchange rate on net foreign liabilities of the banking system and on foreign currency liabilities to residents (the latter are included in quasi-money) are eliminated by applying valuation adjustments to the relevant data.

It is understood that the foreign exchange proceeds of any special financial assistance will be shown both as an asset and a foreign exchange liability on the balance sheet of the National Bank of Yugoslavia.

The NDA level for December 1982 has been estimated to be Din 2,708.7 billion. To the extent that the actual level deviates from that estimated, the NDA ceilings for March 31, 1983 and June 30, 1983 will be adjusted accordingly.

December 30, 1982

Yugoslavia: Interest Rate Schedule

(Per cent per annum)

	Weights 1/	Interest rates as of End-Dec. 1982	Interest rates as of End-Feb. 1983	Effects
Deposit money				
OALS 2/	0.22	1	3	5.6
National Bank credits 3/				
Discounts and credits for liquidity	0.03	14	22	3.0
Selective credits	0.20	4-9	8-12 4/	10.4
Household deposits with maturities of less than one year				
Sight	0.15	7.5	7.5	--
3 months	0.01	--	12	1.4
6 months	0.01	--	15	2.3
Restricted deposits of OALs	0.06	1	4	2.2
Short-term deposits of OALs	0.02	3	7	1.2
Long-term deposits				
Households				
Time	0.06	13-20	18-28 5/	5.0
Housing	0.06	9	13	2.9
OALs and other	0.18	9	17	19.0
Total	1.00			53.0

1/ Based on average amounts outstanding for 1983 as estimated by the National Bank of Yugoslavia.
2/ Organizations of Associated Labor.
3/ Effective end-January, 1983.
4/ Rates on: credits for exports 8 per cent, agriculture 10 per cent, imports 12 per cent, other 12 per cent.
5/ Rates on deposits for 1 year 18 per cent, 2 years 23 per cent, 3 years 28 per cent.

December 30, 1982

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on External Borrowing by the Banking System

It is understood that for purposes of this arrangement the exclusion of borrowing by the National Bank from the agreed limits also includes borrowing by other entities under the guarantee of the National Bank. In addition, the exclusion of debt rolled over also would include debt newly contracted in order to provide resources to cover the repayment of maturing principal.

Supplement to Letter of Intent dated December 30, 1982

The understandings in this supplement, to the extent that they differ with the detail in the Letter of Intent supersede that detail.

I. Technical amendment to page 4, paragraph 6

Because domestic credit at the end of December 1982 had exceeded the credit ceiling by Din 9.2 billion and because monetary expansion generally appears greater than expected, the ceilings for the stock of net domestic assets for the subsequent six month period are adjusted downward by Din 9.2 billion. Accordingly, the limit for June 30 is Din 2,845.7 billion. The outstanding stock of net domestic assets on December 31, 1982 was Din 2,714.4 billion and the average stock of net domestic assets for January 31st, February 28th, and March 31st, 1983 will not exceed Din 2,758.2 billion and that for April 30th, May 31st, and June 30th, 1983 will not exceed Din 2,823.8 billion.

II. Technical amendment to page 4, paragraph 3

Because the expected improvement in the international trading environment is lagging, because the current account deficit vis-a-vis the convertible currency area has turned out to be greater by US$0.5 billion than expected and, in particular, because export performance in recent months has been below expectation, the pace of adjustment as foreseen in December 1982 needs to be speeded up. This also is in line with the moves to rationalize the use of foreign exchange and to expand the foreign exchange market as foreseen in the Decision on the Common Foreign Exchange Policy in Yugoslavia for 1983. Therefore, the dinar was devalued by a further 6.3 per cent between February 15 and March 11, 1983.

III. Technical amendment to page 4, pararaph 4

In order to ensure achievement of the restrictive fiscal policy set out in the Plan Resolution for 1983, we will monitor the 12 monthly ceiling rate of growth of 13 per cent for public sector expenditures and of 18 per cent for collective consumption expenditures. The monitoring will be based on the revenue data that is available monthly. If revenue collections for the public sector on the basis of these data exceed the year-on-year growth of 18 per cent, they are to be adjusted downward through rate cuts in the subsequent months. Therefore, any trend increase in public sector revenues or in revenues for collective consumption for any period of three successive months will be taken as not commensurate with the program agreed in the Letter of Intent. A deviation of 2 percentage points will be acceptable.

If developments in final domestic demand at the time of the review with the Fund have not been in line with the Government's goal set out on page 2 of the Letter of Intent, the Government will seek ways and means not to return revenue surpluses accruing to the individual public sector entities to the economic sector and the population, but to agree that such surpluses will be placed monthly in a blocked account at the National Bank of Yugoslavia until at least 1985. In any event, any surpluses that materialize by the end of the year despite the current monthly measures to redistribute them, will be placed in such a blocked account until at least 1985.

IV. Technical amendment to page 3, paragraph 1

In order to ensure that the overall objective laid down in the Plan Resolution for 1983 is met, it is crucial that the restraints on domestic demand incorporated in the Resolution be realized. Therefore, the Government, on the basis of the data on nominal personal incomes for the first quarter of 1983, which will become available by the end of April 1983, will determine whether the Federation's legal powers to enforce an adequate intervention mechanism should be activated as soon as possible. Such a basis will be deemed to exist if personal nominal incomes per worker in the first quarter of 1983 exceed their level of the fourth quarter of 1982.

The control of domestic credit and of interprise incomes depends crucially on the disciplined behaviour of the enterprise sector. The stock of outstanding credit that has accumulated outside the banking system has reached very high levels. To correct this situation, the Government has already started the procedure to pass amendments to the Law on the Public Auditing Service. The Government will do everything in its power to speed up this procedure with a view to passing the Law before the end of May 1983. The implementation of this Law will ensure that the amount of uncollected bills outstanding, not covered by instruments of payment, will decrease by a minimum of Din 50 billion in 1983.

The Government will include new mechanisms in this Law in order to strengthen the penalty mechanism so as to ensure effective implementation of the provisions of this Law. If by September 1983, it appears that the goal of reducing the outstanding stock of uncollected bills by Din 50 billion will not be achieved, the Government will consult with the Fund on the efficacy of the sanction mechanism with a view to strengthening it as needed.

Radovan Makic
Governor, National Bank of Yugoslavia

Joze Florjancic
Federal Secretary for Finance

Shakam F-re by ice; can he keep the phrase in brackets? IN CODE May/83

HIS EXCELLENCY

ABDLATIF Y. AL-HAMAD
MINISTER OF FINANCE
MINISTRY OF FINANCE
KUWAIT

Alan Z

1. AS YOU ARE AWARE, A FINANCIAL PACKAGE WAS PUT TOGETHER AT MEETINGS IN DECEMBER IN SWITZERLAND TO PROVIDE A NECESSARY SUPPORT FOR YUGOSLAVIA UNTIL THE SERIES OF MEASURES THEY WERE ADOPTING HAD TIME TO WORK THROUGH AND IMPROVE THE BALANCE OF PAYMENTS. THE KUWAITI GOVERNMENT WAS REPRESENTED AT AN INTERGOVERNMENTAL MEETING IN DECEMBER BY AN OBSERVER. THE PACKAGE CONSISTED OF MEASURES TO PROVIDE FINANCIAL RELIEF BY GOVERNMENTS, EXPORT CREDIT AGENCIES, COMMERCIAL BANKS, THE BIS, AND THE FUND.

2. A DIFFICULTY THAT IS THREATENING HALTING OF DISBURSEMENTS UNDER THE AGREED PACKAGE HAS BEEN THE DISCOVERY OF NEGATIVE PLEDGE CLAUSES WHICH COVERED YUGOSLAVIA'S GOLD HOLDINGS TO A NUMBER OF CREDITOR FINANCIAL INSTITUTIONS INCLUDING KFTCIC. FOR DISBURSEMENT TO CONTINUE THESE PLEDGES HAVE TO BE WAIVED. ALL NEGATIVE PLEDGE CLAUSES HAVE NOW BEEN WAIVED EXCEPT THE ONE INVOLVING A SYNDICATION HEADED BY KFTCIC. ~~LENGTHY~~ DISCUSSIONS WITH KFTCIC ON THIS MATTER over recent months HAVE NOT PRODUCED AN AGREEMENT, AND THE WHOLE FINANCIAL PACKAGE FOR YUGOSLAVIA, INCLUDING USE OF FUND RESOURCES, COULD ~~FALL APART~~ be placed in jeopardy.

3. WITH THIS ~~DANGER~~ Background LOOMING, I AM WRITING TO YOU FOR ASSISTANCE IN REACHING A SPEEDY RESOLUTION (HOPEFULLY WITHIN THE NEXT TWO WEEKS) OF THIS ISSUE. I SHOULD EMPHASIZE THAT WE ARE NOT TAKING THIS INITIATIVE AT THE REQUEST OF THE YUGOSLAV authorities WHO PREFER TO CONSIDER THIS AN INTERGOVERNMENTAL MATTER.

4. I WILL BE TRAVELING TO THE MIDDLE EAST IN THE NEXT FEW DAYS AND I ~~WOULD~~ WILL TAKE THE LIBERTY OF CALLING YOU ON THE PHONE TO DISCUSS THIS ~~ISSUE~~ matter ~~WITH YOU~~. KIND PERSONAL REGARDS. SHAALAN INTERFUND.

IMF OFFICIAL CABLE

RECEIVED
1983 MAY 31 AM 10: 56
CABLE ROOM

cc: CETSD

540810

ORIG: EURO
CC: ETR

RCV: @1IM/1.01416 LINE: 1

1030 EST
440385 FUND UI

INTERFUND
WASHINGTON DC USA

YUGOSLAV MISSION MENTRE, MANISON, HANSEN, LEWIS, PETTERSEN

END PIKE
ARRIVED.

MENTRE
REPLY VIA ITT

?
TIME: 10:30 05/31/83 EDT
CONNECT TIME : 64 SECONDS

Being called

Mrs. Hansen - EUR

Mrs. Petersen - ETR

Symons - (For Ms. Pike) - EUR

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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~~INTERFUND~~

~~GENEVA~~

~~SWITZERLAND~~

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MRS. LETTS

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YUGOSLAV MISSION MEMBERS WILL BE MESSRS. WHITTOME,
MENTRE, HANSEN, MANISON, LEWIS, PETERSON, MS. RIPLEY.
SECRETARY WILL BE MISS LOUISE PIKE.
REGARDS
BRIAN ROSE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): A. DANIELS EXT.: 77270 DEPT.: EUR DATE: 5/31/83

AUTHORIZED BY NAME (TYPE): BRIAN ROSE

AUTHORIZED BY NAME (TYPE):

(**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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Brian Rose

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SEC. 48 REV 1 11-18-82

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. PAUL MENTRE
MOSKVA HOTEL
BELGRADE
YUGOSLAVIA

IMF
1983 MAY 31 PM 6 13

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1. THE MANAGING DIRECTOR WILL ARRIVE IN BELGRADE ON THE EVENING OF JUNE 7 AND WE SHALL NEED TO HAVE A BRIEF READY TO DELIVER TO HIM AT THE AIRPORT.

2. THE MANAGING DIRECTOR HAS SAID THAT HE WILL BE HAPPY TO MEET WITH THE YUGOSLAVS ON THURSDAY, JUNE 9.

3. PLEASE MAKE SURE THAT YOU AND I KNOW WHAT THE ARRANGEMENTS ARE FOR JUNE 9. PLEASE BEAR IN MIND THAT THE MANAGING DIRECTOR HAS AN EARLY MORNING MEETING ON THAT DAY IN CONNECTION WITH UNCTAD AND HIS FIRST MEETING WITH THE YUGOSLAVS SHOULD NOT THEREFORE BE SCHEDULED TO START BEFORE 10.30 A.M.

PLEASE ALSO NOTE THAT THE MANAGING DIRECTOR IS FIRMLY COMMITTED TO CATCHING A 1640 FLIGHT TO ZAGREB ON JUNE 9.

4. I WOULD HOPE THAT THE MANAGING DIRECTOR CAN HAVE A GENERAL MEETING WITH THE MAIN YUGOSLAV ECONOMIC POLICY MAKERS AND ALSO A PRIVATE MEETING WITH THE PRIME MINISTER.

5. I ASSUME THAT A FORMAL LUNCH WILL BE HELD. THE MANAGING DIRECTOR WILL PRESUMABLY NEED TO GO TO HIS HOTEL

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 5/31/83

AUTHORIZED BY NAME (TYPE): L.A. Whittome

AUTHORIZED BY NAME (TYPE):

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SEC. 48 REV 1 11-18-82

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

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WASHINGTON, D. C. 20431

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AND THE AIRPORT IMMEDIATELY AFTER THE LUNCH.

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YUGOSLAVIA

Mr Whittome,

Over the weekend I managed to obtain a copy of the promised letter to you from Mr Florjančič. I think it contains no surprises. It is useful in that it states some of the weak counter arguments that may be used against our policy proposals. Perhaps Florjančič assigns too much to investment expenditures in contributing to inflationary pressures and is trying to shift the focus of policy to reducing the inflation rate as against restructuring the economy through changes in relative prices

Regarding the draft communication from the Managing Director to Yugoslav bank creditors ~~which~~ I was uncertain about whether the point on the need for additional funds to clear up payments delays should be included. I have also pencilled some other changes which reflect a conversation with Mrs Janz on the draft.

Les. Manison
May 29/83.

Mr. Whittome

Office Memorandum

cc: 1. Fin Reg [illegible]

cc: 2. HBJ you may wish to ask Desmond to run a similar exercise for Hungary.

To: Mr. Manison

May 27, 1983

From: Desmond Lachman DL

Subject: Yugoslavia--External Debt Projections

On the basis of the preliminary information you provided relating to Yugoslavia's external accounts and debt repayment schedule, I have run our debt program through 1990. The primary debt service estimates are presented in Table 1 while the specific assumptions made with respect to the amortization schedule are listed in Table 2. Throughout the exercise it was assumed that Yugoslavia's new commercial borrowing would have an average grace period of three years after which repayments would be made in three equal annual installments. It was also assumed that new borrowing at concessional terms, including drawings from the IMF, would amount to US$600 million in both 1983 and 1984, after which such borrowing would decline to US$150 million a year.

The estimates obtained under the three alternative current account scenarios examined, would suggest that Yugoslavia would need to aim at approximate current account balance in order to secure an improvement in its respective debt service ratios. Thus, under Scenario B, where the current account deficit is reduced to US$200 million by 1984 and allowed to increase only gradually thereafter, little improvement is recorded in the debt service ratio prior to 1989. The debt service ratio excluding short-term amortization payments amounts to 29 1/2 per cent in 1988 or little changed from its level in 1983, before declining to 24 1/2 per cent in 1989 and 1990 as the period of increased amortization payments resulting from the recent reschedulings comes to an end. A further feature of Scenario B that might be noted is that on the assumption that foreign exchange earnings were to grow by 11 1/2 per cent a year, imports would need to be constrained to an annual growth rate of 10 per cent a year between 1984-86, or only a modest change in real terms, in order to secure the current account profile assumed.

The sensitivity of the debt service estimates to the current account profile assumed is illustrated by comparing Scenarios A and C with Scenario B. Thus, under Scenario A which assumes approximate current account balance over the period taken as a whole, the debt service ratio excluding short-term amortization declines to 21 1/2 per cent by 1990. In contrast under Scenario C, where the current account deficit rises progressively to US$1,750 million by 1990, the debt service ratio of 28 1/4 per cent at the end of the period is little changed from that prevailing in 1983.

cc: Mr. Whittome
Mr. de Fontenay

Table 1. Yugoslavia: Debt Service Projections Under Alternate Scenarios

(In per cent, unless otherwise indicated)

	1983	1984	1985	1986	1987	1988	1989	1990
Scenario A								
Current account balance (in millions of U.S. dollars)	-800	-200	200	400	200	--	--	--
Total debt service ratio	42.1	47.0	42.7	40.2	39.8	36.7	30.1	28.7
Debt service ratio excluding short-term amortization payments	29.1	34.7	31.1	29.5	30.0	27.9	22.2	21.6
Total debt at end of period (in millions of U.S. dollars)	20,608	20,808	20,608	20,208	20,008	20,088	20,088	20,088
Growth in foreign exchange earnings	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Permissible growth in imports	...	8.8	10.2	12.1	14.6	13.8	12.5	12.2
Scenario B								
Current account balance (in millions of U.S. dollars)	-800	-200	-250	-300	-350	-400	-450	-500
Total debt service ratio	42.1	47.0	42.9	40.6	40.6	38.2	32.5	31.6
Debt service ratio excluding short-term amortization payments	29.1	34.7	31.3	30.0	30.8	29.4	24.6	24.6
Total debt at end of period (in millions of U.S. dollars)	20,608	20,808	21,058	21,358	21,708	22,108	22,558	23,058
Growth in foreign exchange earnings	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Permissible growth in imports	...	8.8	13.3	13.0	12.8	12.6	12.4	12.1
Scenario C								
Current account balance (in millions of U.S. dollars)	-800	-200	-600	-1,000	-1,150	-1,300	-1,500	-1,750
Total debt service ratio	42.1	47.0	43.0	41.0	41.3	39.8	35.1	35.4
Debt service ratio excluding short-term amortization payments	29.1	34.7	31.4	30.4	31.5	31.0	27.3	28.3
Total debt at end of period (in millions of U.S. dollars)	20,608	20,808	21,408	22,408	23,558	24,858	26,358	28,108
Growth in foreign exchange earnings	11.5	11.5	11.5	11.5	11.5	11.5	11.5	11.5
Permissible growth in imports	...	8.8	15.8	14.6	12.5	12.3	12.3	12.1
Memorandum items:								
General assumptions								
International interest rates	12.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Amortization of initial debt outstanding 1/ (in millions of U.S. dollars)	3,572	3,200	3,193	2,884	2,684	1,902	756	756
Concessional new borrowing (in millions of U.S. dollars)	600	600	150	150	150	150	150	150
Short-term borrowing (in millions of U.S. dollars)	1,900	2,000	2,050	2,100	2,100	2,100	2,100	2,100

Source: Staff estimates.

1/ See Table 2.

Table 2. Yugoslavia: Assumed Pattern of Amortization of Debt Outstanding at the end of 1982

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989	1990
Total amortization payments of debt outstanding at the end of 1982	3,572	3,200	3,193	2,884	2,684	1,902	756	756
Amortization of medium- and long-term nonconcessional debt	1,250	2,575	2,510	2,200	2,000	1,400	426	426
Amortization of short-term debt	1,810	--	--	--	--	--	--	--
Repurchases of IMF drawing	182	295	353	354	354	172	--	--
Amortization of IBRD loans	180	180	180	180	180	180	180	180
Amortization of bilateral loans	150	150	150	150	150	150	150	150

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

ØKONOMIMINISTEREN

483440 483440

CC: CRD

May 26, 1983.

ORIG: EUR
CC: MD
DMD
MR. N. CARTER

Mr. Jacques de Larosière
Managing Director
International Monetary Fund
Washington D.C. 20431
USA

cc: [illegible]
take a copy to
Belgrade [illegible]

Referring to your telex of March 16, 1983 to the Danish Minister of Finance regarding financial assistance to Yugoslavia I can inform you that - as indicated during the discussions in Berne earlier in the year - the essence of our contribution will be that we keep the export credit guarantees open for 125 millions Danish kroner (approx. US $ 15 mill.) up to December 31, 1983. We have not made any additional commitment to the Berne package.

Yours sincerely,

Anders Andersen

Anders Andersen
Minister for economic affairs

Mr. Whittome

May 26, 1983

cc. copy for Yug files

MEMORANDUM FOR FILES

Subject: Yugoslavia--Report on Meetings with Commercial Banks and Enterprises

1. Introduction

During the period May 11-17, 1983 a series of meetings was held with a number of enterprises, 1/ commercial banks and republican national banks in Serbia (Belgrade), Croatia (Zagreb), and Slovenia (Kranj and Ljubljana). This note summarizes the main findings of these meetings, focussing in the main body of the note on new information regarding the implementation of policies as well as our impressions of the attitudes and concerns of the Yugoslav representatives we met with. Participants of the meetings are listed in Appendix I, and Appendix II contains background information on individual enterprises and commercial banks. Draft notes on a number of these meetings are available for the reader who wishes somewhat greater detail in a chronological order.

A majority of the enterprises selected was export oriented, reflecting an attempt to learn better how the amendments to the foreign exchange law were likely to be applied in practice and to learn of the various responses of firms to the depreciation of the dinar. For this reason, and because these three republics are more export-oriented than others, the views expressed were not expected to be representative of all enterprises and banks in the country. Nevertheless, a number of themes did seem to emerge. First, the pace of adjustment was generally regarded as being too fast. Even export producers thought that the depreciation of the dinar was excessively rapid. However, when enterprise managers were drawn out in discussion of the extent of increases in export prices relative to domestic market prices and on the consequential incentives for exporting, we were left with the distinct impression that exchange rate depreciation could be a potent policy tool. Second, there was evident confusion as to how valuation adjustments in the monetary accounts should be calculated and how the individual banks' limits on net domestic assets were to be implemented in practical terms. Third, in the absence of a functioning foreign exchange market numerous means of coping with foreign exchange shortages had developed: (a) processing arrangements were concluded guaranteeing the requisite imported inputs; (b) barter trade was on the increase; (c) the official allocation process for foreign exchange was not sufficiently flexible and in some cases consequent shortages arose of material inputs which were vital to the production of exports or import substitutes; 2/

1/ The enterprises were Kluz (apparel), Jadranbrod (shipbuilding), INA (oil, petrochemicals), Rade Koncar (manufactures, especially electrical), Sava (tires, other rubber products) and Slovenijales (furniture, wood products).

2/ For example, a case of smuggling of vital imports for which foreign exchange had not been made available was reported.

and (d) foreign exchange assets of banks were in some cases kept idle even if needed in other banks or regions, as enterprises with claims to these assets wanted to have them at their disposal for the time when they would be needed for imports.

Also, there was a sense that valuable time had been lost in 1983 because of delays with the external financial package and because of uncertainties regarding implementation of the foreign exchange law. More than one manager mentioned that part of the planned export production for 1983 was endangered because even after import financing was secured there would be a lag between production decisions and final output of perhaps 3-4 months. Yet the delays and uncertainties persisted.

2. Selected topics of discussion

a. System of bank limits on NDA and domestic credit

Ljubljanska Banka described the nature of the limits which the National Bank of Yugoslavia had imposed upon it and each other bank in Yugoslavia. The instructions from the National Bank, it was explained, allowed a bank to increase domestic credit outstanding only for four purposes: export-oriented activity, the agricultural sector, the energy sector, and for infrastructure. Both the limits on domestic credit and on net domestic assets are binding. Consequently, a bank would be subject to penalties if it exceeded its domestic credit limit for any given month even if the limit on NDA had been observed. Excluded from the individual bank limits were credits (a) for the faster development of the less developed regions, (b) for reconstruction in earthquake-damaged areas, and (c) for the faster development of Kosovo (a credit category additional to (a) above). 1/ On the 25th day of each month each bank is requested to predict its net domestic assets for the end of that month and data on the outturn are to be submitted no more than 15 days after the end of the month. If limits are exceeded a bank would have the remaining half of that next month to bring its net domestic assets or domestic credit under the ceiling; otherwise penalties would be applied by the National Bank. The first penalty would be to cut off the bank from selective credits from the National Bank of Yugoslavia. The second penalty would be to withhold permission to carry-out international transactions. The bank applies valuation adjustments to net domestic assets from the asset side but has apparently received no instructions from the National Bank of Yugoslavia on how to make adjustments from the liability side, i.e., valuation adjustments to net foreign liabilities and to the foreign currency deposits included in

1/ These were the same exceptions mentioned by the National Bank of Yugoslavia for 1983. However, Ljubljanska Banka said that there had been no change from 1982 in the list of exemptions from domestic credit subject to individual bank limits. This implies that the explanation given to the Fund staff for the overshooting of the domestic credit ceiling in December 1982, namely that credit for agricultural stocks excluded from individual banks limits had been greater than anticipated, does not appear to be valid.

quasi-money. The bank found monthly limits on both monetary aggregates to be unduly cumbersome and also thought that the burden of implementing the overall credit policy was unevenly distributed across banks. For example, a bank in Skopje had exceeded its credit limits in 1982 by Din 1 million, and because of this exceeding of limits, other banks were forced to curtail their domestic credit even more than had been stipulated earlier in the year. It was mentioned that the president of the Skopje bank had been taken to court and it was suggested that banks showed great respect for the credit ceilings.

b. Lending policies of individual banks

Ljubljanska Banka extends credit only for export-oriented activity and for the agricultural sector. All of its increase in short-term credits is directed to export-oriented activity, and all such credit needs are met. Of the long-term credit extended, half is to be made available for export-oriented activity and half for the agricultural sector. Beobanka has decided to allow credit for export purposes to increase by 28 per cent in 1983, and credit for primary agricultural production and for the supply of certain essential consumer goods to increase by 22 per cent. Credits for other purposes could be allowed to grow by 5.7-7.0 per cent. Since the share of agriculture and export production was small for Beobanka, this implied a significant curtailment of credits for most of the bank's customers, in some cases necessitating cutbacks in current production of enterprises unable to obtain the necessary working capital. Zagrebacka Banka is giving first priority to the export sector and to agriculture in allocating credits, but it indicated that to the extent possible, bank credit would be made available to maintain other manufacturing production. Investment in construction has been reduced sharply but the bank plans to provide enough finance to allow completion of an additional 4,000 new units of housing; it has financed 7,500 units over the last three years.

c. Tightness of credit policy

Not surprisingly, both enterprises and banks generally found credit policy to be excessively tight, although the National Bank of Slovenia suggested that the credit squeeze had not caused serious problems in the first quarter thanks to seasonally low liquidity needs. Kluz, on the other hand, indicated that it was hard to get sufficient dinar credit to meet seasonal needs and complained that there was not enough credit to finance needed investment. The National Bank of Croatia said that the very restrictive ceilings on net domestic assets and domestic credit had been causing considerable difficulties for the economy of Croatia. It was argued that the main cause of the stagnation of production was the inadequate level of imported inputs, and it seemed that trying to achieve greater adjustment through a sharp curtailment of domestic demand represented the wrong policy strategy. Similarly, Beobanka was unhappy with the tight credit limits. They had at their disposal excess liquidity of Din 8 billion that could not be lent out under the credit limits. They may lend out these funds on the interbank market at an interest rate of

27 per cent per annum, but they see the credit limits as putting their founding members at a disadvantage relative to those enterprises which ultimately borrow the liquid funds that Beobanka makes available to other banks. The shipbuilding company Jadranbrod noted that the bank credit squeeze posed difficulties, both on account of the overall limits of its business banks and because of the lumpy nature of its demand for credit. For example, Rijecka Banka, which serves four shipyards, is unable to satisfy their credit needs which are normally substantial. The credit needs of the four shipyards for 1983 are estimated at Din 7 billion but the total credit expansion which Rijecka Banka was allowed only amounted to Din 10 billion, of which it would be able to allocate only Din 3.5 billion to these shipyards. In other cases as well, shipyards were unable to secure the necessary liquidity to finance their production. Zagrebacka Banka thought that there had been some reduction in the demand for credit owing to higher interest rates, and so far little problem with overly tight credit limits had been experienced but it thought that slightly more flexible limits on banks might be needed for the approaching summer season, allowing in particular higher credit limits for the agricultural sector, including the financing of food stocks. This bank was liquid in terms of dinars and could easily finance a larger volume of credit if permitted. Ljubljanska Banka also indicated that the credit squeeze was hampering the production of its founding members.

d. Interest rate policy

Predictably, banks and enterprises found the recent increases in interest rates to be too much, too fast, with the possible exception of some in Slovenia. Kluz said that the increased interest costs offset the beneficial effects of devaluation. Rade Koncar said that its average interest cost on all investment credits amounted to 12 per cent in 1982, and can be expected to rise by 7 percentage points to 19 per cent for 1983, assuming unchanged interest rates the rest of the year. This average includes export credits from Zagrebacka Banka currently at 14 per cent per annum. Interest rates on investment credit now ranged as high as 32 per cent per annum. Several banks and enterprises drew a link between increased interest costs and a weakening of enterprises' financial positions because with what they saw to be stringent price controls, it was not possible to pass on higher interest costs into prices, at least not to a sufficient degree. Enterprises in PBZ were probably hit harder than others. PBZ estimated that interest expenses of its founding members had doubled over the last year. Zagrebacka Banka charged 16-18 per cent on export and agricultural credits, but only 12 per cent on housing credits for individuals, carrying a maturity of 5-20 years. There appeared to be some shift from short-term to longer-term deposits in response to the changes in deposit rates, although clear trends could be hard to discern conclusively after so short a time. From the end of December 1982 to the end of March 1983 total short-term deposits of Zagrebacka Banka had increased by 9.1 per cent to Din 43 billion while long-term deposits had increased by 23.5 per cent to Din 24.3 billion. Broken down by currency, its long-term dinar deposits had grown by 17 per cent and long-term foreign currency deposits by 26 per cent, while short-term dinar deposits had declined by 1 per cent and short-term foreign currency deposits had grown by 16 per cent. (Increases in foreign currency deposits are expressed in dinar terms as shown on bank balance sheets.) Ljubljanska Banka reported that, on average, lending rates on new credit had increased by about half in 1983 (see Appendix II).

The National Bank of Slovenia has advocated a realistic interest rate policy in recent years, arguing that it would lead to a more rational use of funds, as excess demand for credit would fall, and also that it would stimulate the supply of savings. According to the National Bank of Slovenia, time deposits in Slovenian banks have risen by 40 per cent following the latest increases in interest rates in early 1983, largely reflecting a redistribution of deposits from sight deposits to the new three-month and six-month time deposits. (This does not square with Ljubljanska Banka's description of disinterest in these short-term time deposits; see Appendix II.) Households' interest in two- and three-year time deposits remained weak. At the same time, the higher interest rates were creating difficulties for financiallly weak enterprises in Slovenia, often found in high priority sectors.

e. Interenterprise credits

The National Bank of Croatia was inconsistent in its comments on this subject, (Mr. Rogic) arguing on one hand that the tight monetary policy had stimulated an increase in interenterprise credits, an unwelcome by-product of the squeeze on banks. On the other hand, such interenterprise credits were deemed beneficial because they had allowed production to remain at a higher level in the last one to two years than would have been possible without such credits. A study by the National Bank of Croatia (copy provided) suggests that economic activity is positively correlated with interenterprise credit but not, in a statistically significant sense, with monetary aggregates. Rade Koncar indicated that the interenterprise credits channelled within its complex organization of associated labor were administered by its internal bank. Zagrebacka Banka had noticed an increase in interenterprise credit, mostly in the form of promissory notes. This bank explained that these notes could be rediscounted with the commercial banks. They could not be rolled over and could only be used for the sales of goods between enterprises. Enterprises were not allowed to extend financial credits. Promissory notes would usually be guaranteed by the issuing enterprise's bank only if they were to be purchased by the regional national bank. It was estimated that about 10 per cent of the promissory notes of enterprises were rediscounted with commercial banks. Of Zagrebacka Banka's Din 85 billion in short-term advances, Din 5 billion consisted of such rediscounted notes.

f. Personal incomes

Our understanding of how the process of determining personal incomes (wages and salaries) really works remains incomplete. At Kluz, adjustments to pay rates are made once or twice per annum. In Jadranbrod they are said to be adjusted frequently, sometimes as often as each month, on the basis of a self-management agreement of longer duration. Pay rates and pay increases vary among shipyards in the composite organization, depending on the profitability of the enterprise.

During an informal conversation, Mr. Velickovic of the National Bank of Yugoslavia explained that a point system was utilized to determine personal income payments whereby each worker in an enterprise was allotted a certain number of points which, depending on the job category, might be on the order of 400 or 800 points. For a given month a total amount made available by the enterprise for personal income payments, based largely on the enterprise's output or income, would be divided among employees on the basis of each employee's point total in relation to the grand total for all workers in the basic organization of associated labor (BOAL). Thus, an employee's share of the enterprise's total payments of personal incomes would typically be more stable than the employee's monthly take-home pay in dinar terms. Mr. Broz of INA said that the maximum wage differential within an enterprise was usually no greater than 4 to 1 and often only 3 to 1, apparently implying that the general manager would have three or four times as many points as the lowest paid laborer. Rade Koncar indicated that in 1982 its personal income payments rose 25 per cent on average, with increases in the range 12-31 per cent for different basic organizations of associated labor in its composite organization.

Representatives of two enterprises noted that wage differentials had become more compressed in recent years, but they drew different conclusions. Slovenijales drew attention to the consequent suppression of incentives for a worker to change jobs or otherwise become more productive. INA (Mr. Broz) pointed out that cuts in real wages had in earlier years been distributed so as to shield those on subsistence incomes, thus contributing to the narrowing of differentials. There remained little scope for further redistribution so that any future cuts in real wages would unavoidably have a greater impact than previously on workers with the lowest incomes.

g. Domestic pricing policy

Several enterprises indicated that they were being squeezed by the price freeze, although in some cases there was an acknowledgment that a strict control of domestic prices was required if the depreciation of the dinar was to have its intended effect. Nevertheless, some amount of frustration was expressed that higher interest costs and more especially higher prices of imported intermediate goods could not be passed on into output prices fast enough and to a large enough extent. Rade Koncar observed that in cases where prices were frozen an alternative was to slightly change the product and then charge a different price. It also noted that long-term contracts with escalator clauses did not provide full indexation. For example, during a recent period when its input prices had risen 40-80 per cent, the increase in output prices was only 17-18 per cent. During our stay in Yugoslavia Mr. Smijarevic, new head of the Federal Community for Prices, was interviewed on television where he reportedly argued inter alia that the present inflationary problem was due to demand pull factors.

h. Foreign currency deposits of households

Little new was learned, but there seems to be no evidence that there has been a shift from foreign currency deposits to dinar deposits in response to increased dinar deposit rates. The National Bank of Slovenia thought that modest changes in interest rate differentials between dinar deposits and foreign currency deposits were largely irrelevant because the differential expressed in dinars was still so large. Moreover, inflationary expectations were so entrenched (implying expectations of future depreciations of the dinar) that foreign currency deposits were likely to remain substantially more attractive to households than dinar deposits accounts. For Slovenia the main foreign currency for such accounts was the deutsche mark. Stagnation of these deposits in real terms through 1982 was probably associated with a stable or falling number of Yugoslavs temporarily working abroad. Also, it was no longer possible to directly buy imported goods with foreign currency withdrawn from these accounts but only through consignment stocks. Beobanka thought that an increase in inward remittances from foreign workers was only apparent because it seemed that foreign currency receipts from tourists had found their way into the possession of households rather than being channelled through the banking system as the regulations prescribed. (This is contradicted by first quarter BOP data which show a small decline in net remittances more than offset by a net increase in tourist payments.) It felt that the trend it experienced would be representative of the general situation in Yugoslavia as a fairly large amount of foreign currency deposits of households was channelled via Beobanka.

i. Freezing excess public sector revenue

It was confirmed that republican and provincial national banks hold deposits of the various socio-political communities (public sector entities with budgets) and that commercial banks hold the deposits of the self-management communities of interest responsible for collective consumption. These are held as sight deposits which, in the case of commercial banks, can be used freely for the extension of short-term credit with a maturity of up to one year. Beobanka was unaware of a system of blocked accounts which the SDK would control on behalf of the self-management communities of interest. Similarly, for socio-political communities the amount of excess revenue to be frozen would be known and monitored only by the Social Accounting Service (SDK). The National Bank of Slovenia, for example, would have information only on the total deposits for each socio-political community. All such deposits would be included in the credit potential of the republican national bank. All such accounts are kept with the SDK. It has been stated publicly that it is the SDK which has the authority and is charged with the responsibility of controlling the disposition of the deposits of public sector bodies.

j. Foreign exchange allocation 1/

The details of the new allocation system are to be worked out by the end of June 1983. However, the enterprise Kluz thought the deadline was the end of July, and the Beobanka representative thought that even this was optimistic. The shares of foreign exchange receipts allocated to the federal government, the National Bank of Yugoslavia, and for energy import needs, remain thus far in 1983 at 5, 3, and 17 per cent respectively. 2/ The share of the republics was increased from 8 per cent in the first four months to 15 per cent as of May 1 (in Serbia and Croatia). Thus, the share which enterprises could retain for themselves, distribute to their suppliers, and sell to the unified exchange market (if any surplus was left) decreased from 67 per cent to 60 per cent; in Slovenia, the percentage increased from 56 to 60 per cent.

Enterprises are often able to avoid having the stipulated retention ratios (e.g., a maximum of 60 per cent under the new allocation system) applied to the total value of exports in a variety of ways. First, under processing agreements (e.g., Kluz and INA) the foreign purchaser of the output assures the Yugoslav producer of the required imports of intermediate inputs, and foreign exchange is received in respect of net exports, not gross exports. Second, joint ventures may provide for exports to the foreign partner (e.g., Sava and the Austrian tire manufacturer, Semperit) in exchange for imports of material inputs and in payment for licensing arrangements. Third, for 1983 any exporter that increases the dollar value of its exports by more than 20 per cent over 1982 will be permitted to retain all foreign exchange receipts from exports in excess of this targeted level. Fourth, certain export sales in border trade are exempt from the allocation requirements. Fifth, in the case of pharmaceuticals a special arrangement allows the exporter to retain 75 per cent of export revenues. Sixth, it appears that barter trade may sometimes permit an enterprise to increase the import-buying power of its exports since it avoids receiving the foreign exchange proceeds from exporting that would be subject to allocations.

In some of the foregoing examples, the foreign exchange inflow from exports falls short of the value of exports. 3/ (However, it is not known for certain how the imports and re-exports under the processing arrangements are reflected in the foreign trade statistics.) A different but related point is that some banks have indicated that the inflow of foreign exchange receipts have been lagging the underlying commodity export flows because some exporters may intentionally delay receipts so as to benefit from

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1/ The basic principles and aims of the amendment to the foreign exchange law are outlined in Mr. Petersen's memo to files of April 26, 1983, and the main issues are discussed in Mr. Petersen's memo to Mr. Mentre of May 6, 1983.

2/ The vice-president of the oil company INA (Mr. Broz) claimed that the 17 per cent share should also cover imports associated with domestic oil production and exploration activities.

3/ Correspondingly, the outflow falls short of the value of imports.

the ongoing depreciation of the dinar. Some enterprises (e.g., Kluz) reported that payments for exports are made within 20-50 days of delivery, and attempts by the importer to lengthen this period are resisted because of the exporter's need for liquidity in terms of dinars.

Most enterprises emphasized that the amended foreign exchange allocation system was a dramatic improvement on the conditions in effect in the second half of 1982, when enterprises in Serbia and Croatia had been able to retain only 23 per cent of foreign exchange receipts (which then needed to be shared with suppliers), and those in Slovenia 30 per cent. Some of them suggested that substantial difficulties in obtaining the foreign exchange needed for export production followed, and were exacerbated by, the May 1982 changes in the foreign exchange allocation system.

All enterprises gave the impression that the new system would not significantly alter export incentives compared with the system in effect before May 1982. Kluz, Rade Koncar, and Jadranbrod indicated that they did not expect to have any surplus foreign exchange which might be sold to the unified market. Kluz expected to retain 20 per cent and distribute the remaining 40 per cent to its suppliers. Slovenijales, however, thought it might contribute some 10 per cent of its receipts to the unified market through sales to its commercial banks, retaining 35 per cent for its own needs and distributing 15 per cent to suppliers. Slovenijales did not consider the 10 per cent contribution to imply a significant loss of export incentives, given the much more realistic exchange rate.

The allocation system had proven insufficiently flexible, particularly in the second half of 1982, to provide foreign exchange for essential imports. Thus, Rade Koncar explained that a lot of exports had been foregone in 1982, including unfilled contracts of $26 million, because certain strategic inputs in the production process had not been available. Also, INA explained that, while foreign exchange was allotted for buying oil in 1982, it was unavailable for the purchase of an essential nonpetroleum additive for the production of diesel fuel. In the end, INA found it necessary to resort to illegal activity, paying for the needed additive by under-invoicing some of its exports.

Commenting on the groups to be formed for the purpose of sharing foreign exchange, Kluz stated that agreements had been reached on the formation of a large group covering all of the textile sector. The other enterprises had not yet finished negotiations for the sharing of foreign exchange, but they all indicated that they did not expect much change from the system in effect before May 1982. Jadranbrod and Slovenijales, large composite organizations, expected to form independent groups with their main suppliers, much as they had done previously. The only difference would be a formalization of the system of agreements based on the unified criteria. This was nevertheless not expected to bring much change to the actual allocations. Sava Kranj also expected to share its receipts from exports with its suppliers much as before. Being a net importer, it also received foreign exchange allocations from those export producers which it supplied. Here again, no major changes were expected in the companies or the magnitudes involved. Thus, the picture given by all but Kluz was very close to the pre-1982 system, and seemed to differ from the groupings of enterprises by type of economic activity as envisaged by the new law. Slovenijales did say that there had been talk earlier of creating a large group of all wood and furniture producers, but the idea had been dropped. Instead, some 12 groups were expected to be formed in that sector, each comprising a major composite organization. In this connection, it was noted that a supplier could in theory be connected with and receive foreign exchange from all 12 groups.

The banks also gave the impression that the new system of foreign exchange allocation would not have an impact much different from that in effect before May 1982. As to the operation of the interbank foreign exchange market, they explained that very few transactions took place at present. In Zagrebacka Banka, it was hoped that a new self-management agreement which entered into effect on April 1 would facilitate interbank transactions. According to this agreement, banks could cover seasonal time lags between inflows and outflows by borrowing from seasonally liquid banks. This was explained as sales of foreign exchange on a futures basis, but appeared to be more of the nature of a swap arrangement. Such arrangements had been illegal earlier when all interbank transactions had had to take the form of outright sales. Ljubljanska Banka, however, did not expect any increase in interbank market activity as a result of the new agreement.

While enterprises in theory aim to finance imports and other payments from their own resources, commercial banks occasionally extend credits in foreign exchange in cases where export revenues can be expected to cover repayments of such credits. For example, Sava Kranj had total obligations for imports and foreign debt service payments of $72 million in 1982, but only realized foreign exchange receipts of $63 million. The remaining $9 million had been covered by Ljubljanska Banka, but was to be repaid to the bank in 1983.

k. Suppliers' credits

Rade Koncar and Jadranbrod both emphasized the importance of a timely conclusion of the Berne package. They explained that even traditional suppliers, with whom relations had always been correct, refused to keep the usual lines of credit open or to provide other credits until the government negotiations were concluded. They both noted that this endangered the export performance for 1983. According to Ljubljanska Banka, the suppliers' credits under the Berne package would be distributed as follows. Each creditor country is to have all of its credits channeled through a single Yugoslav bank. For example, Ljubljanska Banka will administer the flow of suppliers' credits from Germany, Belgium, the Netherlands, and Denmark. Negotiations with Germany for DM 418 million have been substantially concluded, and credits should start flowing within a month. It will take somewhat longer for the other credits. Once credits are in place, Ljubljanska Banka will receive tenders from throughout the country for the use of the suppliers' credits and will award them to those enterprises that can offer the highest return in terms of foreign exchange earned. The foreign exchange will be channeled through the commercial bank of the enterprise. Enterprises will be required to document their potential export earnings, ideally with export contracts in hand. It had been discussed whether the suppliers' credits could be utilized on a revolving basis. It was felt that it might not be feasible in the case of credits for which the importing enterprise was the debtor and the bank was only guarantor (which would be the case with the German credits). If Ljubljanska Banka were to be the debtor, it would prefer to make the credits revolving, as in the case of the World Bank SAL.

Credit extended on the basis of suppliers' credits would be included in the credit ceiling for the commercial bank of the final user.

1. Impact of depreciation

Most enterprises recognized the theoretical importance of the depreciation of the dinar as a means to restructure the economy in favor of exports. Jadranbrod and Rade Koncar, however, who as net exporters should benefit from the depreciation, did not seem very enthusiastic, and emphasized that perhaps the speed of the depreciation was too fast and that most of the benefits were being eaten up by the rapid inflation resulting mainly from the depreciation of the dinar. Rade Koncar did admit that over the last several months production for export had become more profitable than production for the domestic market. This observation was also made by Sava Kranj, who stated that, because of the price freeze in the domestic market, exports paid 20-25 per cent more in dinar terms than sales on the domestic market. However, Slovenijales, who, as a net exporter, was very outspoken in favor of a continued active exchange rate policy, stated that their domestic prices were still some 10 per cent above their export prices.

W. Lewis and A. Petersen

W. Lewis and A. Petersen

cc: Mr. Whittome
Ms. Ripley (o/r)
Mr. Mentre (o/r)
Mr. Hansen
Mr. Manison

The IMF representatives participating in the following meetings were Mr. Mentre (the first seven meetings) and Messrs. Lewis and Petersen. Yugoslav representatives are as listed below. In addition, Mr. Veličković of the National Bank of Yugoslavia was an observer at the meetings, and, in some cases, there were observers from Beobanka (at Kluz), the National Bank of Croatia, the National Bank of Slovenia, and Ljubljanska Banka.

1. Beobanka (basic bank affiliated with the associated bank Udružena Beogradska Banka), Belgrade, May 11, 1983 at 8.45 a.m.

Mr. Branko Miljević, President
Mr. Ljubodrag Milenović, Vice President for Foreign Operations
Mr. Obren Antonić, General Manager for Economic Relations with Foreign Countries
Mr. Ikonić (credit and monetary policy)

2. Kluz enterprise, Belgrade, May 11, 1983 at 10.30 a.m.

Mr. Stanković, General Manager for Processing
Mrs. Savatović, Manager of Export and Import Operations

3. National Bank of Croatia, Zagreb, May 12, 1983 at 9.00 a.m.

Mr. Vladimir Pavetić, Deputy Governor
Mr. Antun Šokman, Vice Governor
Mr. Vedran Kuiš, Head of Credit Department
Mr. Zdravko Rogić, Head of Research Department
Mr. Jure Gotovac, Head of Foreign Exchange Documentary Control
Mr. Savo Dobrijević, Chief of Foreign Exchange Control
Mrs. Jelka Rajter, Chief of Foreign Exchange Credit Division
Mr. Stjepan Bulimbašić, Chief of Governor's Cabinet
Ms. Sonja Telećan, Interpreter

4. Jadranbrod (a composite organization of associated labor), Zagreb, May 12, 1983 at 10.30 a.m.

Mr. Mladen Kmetić, Finance Manager
Mr. Bogumil Randić, Sales Manager

5. INA (Industrija nafte Zagreb, a composite organization of associated labor), Zagreb, May 12, 1983 at 12.30 p.m.

Mr. Aleksandar Broz, Vice President

6. Privredna Banka Zagreb, Zagreb, May 13, 1983 at 9.00 a.m.

   Mr. Ivan Paulović, Member of the Board, Foreign Relations
   Mrs. Marija Culibrk, Member of the Board, Interbank Relations/Liquidity
   Mr. Josip Slade, Member of the Board, INA and Petrochemicals Department
   Mrs. Iva Bobanović, Director of Foreign Loans and Credit Department
   Mr. Josip Brajković, Director of Plan Analysis Department and Chief Economist
   Mrs. Gordana Belamarić, Interpreter
   Mr. Ranko Gavrilović, Manager of Foreign Exchange Department

7. Rade Končar (a composite organization of associated labor), Zagreb, May 13, 1983 at 11.15 a.m.

   Mr. Branko Počekaj, Executive Vice President
   Mr. Vladimir Bek, Vice President
   Mr. Ivan Rujnić, Vice President for Finance
   Mr. Šime Mrkonjić

8. Zagrebačka Banka, Zagreb, May 13, 1983 at 1.30 p.m.

   Mr. Rudolf Filipčić, Deputy General Manager
   Mr. Vladimir Misija, Senior Adviser to the General Manager
   Mr. Safet Prusac, Manager of International Department
   Mr. Dalibor Kovačević, Senior Adviser
   Ms. Marija Trbović, Divisional Manager - International

9. Sava (composite organization of associated labor) and Sava-Kranj (one of its work communities), Kranj, May 16, 1983 at 8.45 a.m.

   Mr. Bruno Skumavc, General Manager of Sava
   Mr. Viljem Žener, Manager of Sava-Semperit (tires)
   Mr. Janez Bohorič, General Manager of Sava-Kranj
   Mr. Franc Balanč, Director of Finance of Sava

10. Slovenijales (composite organization of associated labor), Ljubljana, May 16, 1983 at 12.15 p.m.

    Mr. Drago Petrovič, President
    Mr. Matija Škof, Executive Vice President of work organization, Slovenijales Trgovina

11. Ljubljanska Banka (associated bank), Ljubljana, May 17, 1983 at 9.30 a.m.

Mr. Marjan Kandus, Senior Vice President
Mr. Gregor Dolenc, International Funding
Ms. Jakobina Dagarin, International Banking
Ms. Iva Dolenc, Interest Rate Policy
Mr. Stane Valant, Planning
Mr. Bojan Maher, Analysis

12. National Bank of Slovenia, Ljubljana, May 17, 1983 at 11.30 a.m.

Mr. Mirko Jamar, Governor
Mr. Ljubo Knop, Vice-Governor
Mr. Jože Gruškovnjak, Credit and Monetary Policy
Ms. Miloša Jukič, Exchange Control
Mr. Franc Arhar, Exchange Control
Mr. Mitja Gaspari, Research
Mr. Andrej Rant, Research
Ms. Metka Kuhar, Credit and Monetary Policy

Background Information on Individual
Enterprises and Commercial Banks 1/

1. Enterprises

a. Kluz

(1) Structure

This enterprise produces ready-to-wear apparel and parachutes, primarily for export. There are five plants, each consisting of one basic organization of associated labor (BOAL) and 120 retail outlets in Yugoslavia owned by the enterprise, employing 5,000 workers in production and 2,000 in services and trade. This summer a sixth factory should be completed which will employ 500 workers and utilize German equipment which embodies some of the most modern and capital-intensive technology available.

(2) Wages and non-wage benefits

Workers are paid at a piece rate which is constant for a given job, except that a supplement for seniority amounting to 0.5 per cent per year of service is added to the base rate. Rates of pay were raised by 17 per cent as of May 1, 1983, having last been changed in April 1982. Rates of pay are generally increased once or twice annually. In order to stimulate production for exports it was decided that all employees would work on Saturdays during the months May-August 1983 and would be compensated by a 35 per cent increase in wages during this period. (This increase in pay and in working hours combined with the 17 per cent general increase in May implies a 28.3 per cent increase in hourly rates of pay, marginally higher than the nationwide average for the economic sector in the first quarter of 1983.) The enterprise works two eight-hour shifts daily and provides a free meal mid-way through the shift. Other job benefits include free medical and dental services; also a resort complex on the Adriatic coast is available to employees at rates which cover operating costs.

(3) Exports

Kluz has exported for 20 years and has markets in the United States, Germany, Belgium, the Netherlands, the United Kingdom, Sweden and in less developed countries. In addition it exports to the Soviet Union via Belgium, with export payments received in terms of Belgian francs. Approximately 85 per cent of total output is exported and virtually all production in the period April-August 1983 is expected to be exported. About 50-60 per cent of the enterprise's export production takes place on the basis of so-called processing arrangements, whereby the purchasing firm supplies all raw materials, design specifications, etc. and imports the finished product from Yugoslavia. However, the various material inputs may be imported from various countries other than that of the purchaser. The

1/ In addition, descriptive brochures on a number of the enterprises and banks were obtained.

second more traditional arrangement consists of production based on Kluz's decisions regarding design, colors, purchasing of material inputs, etc. The enterprise's direct imports comprise about 10 per cent of the value of its exports but the direct and indirect import requirements of the various domestic suppliers to Kluz are apparently substantial. The processing arrangements are motivated in part by the difficulties that may be encountered in responding to rapid changes in tastes and fashion in foreign markets, but Kluz is seeking to reduce the proportion of its exports that are based on such arrangements.

b. Jadranbrod

(1) Structure

Jadranbrod is a composite organization of associated labor comprising the major part of the ship-building industry in Yugoslavia, including all shipyards on the Adriatic coast. Some 25,000 people are employed in ship construction, repair and in the production of diesel engines and other components of ships. More than 90 per cent of Jadranbrod's total production is exported. The majority of ships are exported to the convertible currency area, including India, Norway, China, and, under various flags of convenience, the European shipowners in Scandinavia, Greece, etc. However, the single largest buyer currently is the Soviet Union.

(2) Financing arrangements

Sales to the Soviet Union are on a cash basis (in dinars). Credit terms for other sales conform to international conventions for export financing. Normally, 20 per cent of the purchase price of the ship is paid during construction or upon delivery, and 80 per cent is covered by export credits. The shipyards finance this 80 per cent with their local banks. The banks in turn refinance 80 per cent of these credits, or some 64 per cent of the purchase price, with the Yugoslav Bank for International Economic Cooperation. Due to previous sales of ships there tends to be a steady inflow of foreign exchange on account of repayments of previously granted export credits. Repayments of $100 million are expected in 1983, contributing to projected foreign currency receipts of $190 million. Foreign obligations in 1983 are estimated at $50 million. Shipyards have traditionally bought raw materials and other imports on credit from the foreign producer, in some cases with a guarantee from a Yugoslav bank.

c. INA and the energy sector

(1) Oil and gas exploration and production

INA's domestic production of oil (3 million tons in 1981) and natural gas (over 1 billion m^3 in 1981) is expected to be augmented by production in new fields amounting on an annual basis to 0.5 million tons of oil, 1.5 billion m^3 of natural gas, and 0.5 million tons of condensates. Also, INA participates in foreign exploration. For example, production has begun in an

Angolan field operated by Elf Aquitaine and is expected to yield INA 0.5 million tons per annum, though not before 1985. The marginal cost of domestic oil production (including, e.g., some provision for spare parts) is estimated at $200 per ton, compared with an international price of about $210 per ton. INA accounts for 60 per cent of oil refining in Yugoslavia; the other oil refiners are Naftagas and Energoinvest.

(2) DINA

Located on the island Krk, this joint venture with Dow Chemical for petrochemicals production is nearly ready for start-up. One plant is completed, another is 98 per cent complete, and off-site facilities are 94 per cent completed. Production could begin in four months with additional investment of only a few million dollars, but this will be difficult to come by, now that Dow has left the venture. Investment in the project has amounted to $300 million so far and negotiations with Dow on the terms of debt service remain difficult.

(3) Kutina

A total project cost of $675 million for the production of fertilizers from natural gas has been incurred. Output capacity is 2 million tons per annum, allowing some scope for exports (prohibited up to now), and production is expected to commence within 60 days (at PBZ we were told production would amount to 1.3 million tons per annum). Operating losses are to be expected for the first 2-3 years. Consequent improvements in agricultural productivity could be considerable, as suggested by the fact that the average consumption of fertilizer per hectare in Yugoslavia is low by international comparison.

(4) Prices

The infrequent and inadequate adjustments of prices of petroleum products have had a substantially adverse impact on INA's financial position, mainly because of the depreciation of the dinar. The import content of petroleum products refined by INA from imported crude is estimated at 88 per cent, while refining accounts for 6 per cent of the costs. The price of domestically produced natural gas is expected to be raised in stages to the import price, although a timetable has not yet been agreed. For domestic crude oil, prices are adjusted on a quarterly basis to bring them into line, with a three-month lag, with import prices. Kutina is charged a lower price for natural gas than is the private sector because of its buoyant demand for gas during periods of seasonally weak demand by households.

Prices of crude oil imported from the hard currency area, whether on the basis of short-term or long-term contracts, are equal to the selling price in the exporting country on the date of delivery.

(5) Energy balances

Pending adoption of the 1983 energy balance for Yugoslavia, provisional allotments for oil imports in the first four months were based on an annual total import of 9.4 million tons of crude oil. This figure is being raised to 11 million tons which, with domestic production of 4 million tons (3 million by INA and 1 million tons by Naftagas) implies gross consumption (including any stockbuilding) of 15 million tons in 1983. This figure excludes the processing of foreign oil for re-export, primarily to Italy, which is expected to increase from 1.0 million tons in 1982 to 1.5 million tons in 1983. INA is expected to refine 7.4 million tons of oil in 1983, of which some 3 million tons is domestic crude, again excluding the refining of foreign oil for re-export.

(6) Capacity utilization

Annual production capacity of oil refineries is 15 million tons for primary refining and 10 million tons for secondary refining. The latter concept is deemed relevant because not all primary refining capacity can be used economically. All secondary refining capacity is now being utilized, as must be done if financial losses are to be avoided.

(7) Trade

Efforts are always made to barter exports for oil imports, including exports of management services for foreign oil refineries. In OPEC countries, as much as 80 per cent of oil purchases may be bartered. Oil imports for barter fell from $190 million in 1981 to $90 million in 1982, and are projected at $60 million in 1983. All three enterprises with oil refineries (INA, Naftagas, Energoinvest) import oil on their accounts with financing from their banks (PBZ, Privredna Banka Sarajevo, and the Bank of Vojvodina). These banks, in turn, are reimbursed by the National Bank of Yugoslavia from a special fund replenished by a contribution of 17 per cent of exporters' foreign exchange receipts. Oil imports from the U.S.S.R. are paid for in dinars, and the distribution of convertible and non-convertible currency imports by enterprise are determined by the stipulation that the share of hard currency oil imports in the total supply of crude oil should be the same percentage for all enterprises.

(8) New sources of foreign exchange

INA has been investing in the tourist industry by participating in the joint financing of existing hotels and by establishing a tourist organization (Phoenix) to compete abroad with Yugotours. This investment rose from Din 2 bilion in 1981 to Din 3 billion in 1982 and is expected to remain at the same level in 1983. Some 10,000 tourists came to Yugoslavia with Phoenix in 1982, its first year, and an 85 per cent increase in advance bookings for 1983 suggests that 20,000 may be expected this year.

c. Rade Koncar

(1) Structure

The composite organization consists of 20 working communities divided into a total of some 50 BOALs located in Croatia, Bosnia-Hercegovina and Macedonia, employing a total of 22,000 people. Rade Koncar produces a wide variety of electrical equipment including motors, generators, transformers, switching equipment, electrical transmitters and specialized instruments, and it also undertakes turnkey projects such as power plants. Initially there had been heavy reliance on foreign licenses from Siemens, ASEA, etc. but now 85 per cent of the company's production is based on its own designs and technology. Their main bank is Zagrebacka Banka through which all foreign exchange transactions are carried out, but also carries out domestic transactions with other banks where production facilities are located.

(2) Exports

Exports comprised 27 per cent of total production in 1982, 19 per cent to the convertible currency area and 8 per cent to the nonconvertible area. The export-output ratio was 20 per cent in 1981. Exports are sold to some 70 countries, with roughly 30 per cent going to European countries (consisting primarily of components for consumer and capital goods), 40 per cent to developing countries and 30 per cent to CMEA countries. The most important markets are Italy, Sweden, France, West Germany, Belgium, Egypt, Nigeria, Iran, Czechoslovakia, U.S.S.R., and the German Democratic Republic.

Exports to the convertible currency area declined from $60 million in 1981 to $56 million in 1982, partly because financing difficulties were encountered in the second half of 1982 so that not all of the required imports were obtained. Unusually long delays in import financing from Hermes were reported. The plan for 1983 originally called for exports of $172 million to the convertible currency area but the present forecast, now scaled down to $120 million, would be realized only if current financing problems for imports of raw materials and spare parts could be resolved in a timely fashion. For 1983, 96 per cent of the projected exports have already been contracted for, and additional contracts could readily be concluded if Rade Koncar could be assured of obtaining the necessary imports. Plans for the medium term were to increase the share of exports in total production to 60-70 per cent over a period of 13 years. In the first quarter of 1983 the shortage of imports had resulted in some stagnation of production. Nevertheless exports rose to some $19 million in the first quarter of 1983 (compared with $14-15 million a year earlier), implying a shift in the company's output from the domestic market to the export market.

(3) Imports

In 1982 imports amounted to $80 million, of which $17 million was from the nonconvertible area. Some decrease in imports is expected in 1983, partly because the figure for 1982 was inflated by special imports on behalf of some of the company's suppliers. The average import content of production was about 27 per cent. For export products which were more complex the import content might be on the order of 36 per cent. Declining imports have been compensated to a limited degree by a rundown of stocks, but there is little scope for further reductions of these import stocks.

e. Sava Kranj

(1) Structure

The Sava group is a composite organization of associated labor consisting of Sava Kranj (tires), Sava Commerce, and a number of other factories that produce rubber products, artificial leather, and chemical products. Rubber tires account for more than 50 per cent of production. Automobile and truck tires are produced in Kranj, tractor tires in Ruma. The composite group employs 7,000 workers, of which 4,100 are employed in Sava Kranj. Total production of all sorts amounted to 107,000 tons in 1982, and resulted in a turnover of Din 10 billion.

In 1972, Sava Kranj began to produce tires under a 25-year agreement with Semperit of Austria, which owns 27 per cent of this company. Originally, IFC also held a 5 per cent interest but sold it in 1980. Semperit supplied know-how and marketing. Some 30 per cent of production carries the Semperit name, and is marketed through Semperit.

(2) Foreign trade

The value of exports of the Sava group amounted to US$75 million in 1982, more than 80 per cent of which went to the convertible currency area. Exports by Sava Kranj alone amounted to US$42 million, of which US$39 million went to the convertible currency area, and US$3 million went to the clearing area.

The share of exports in total production was 40-50 per cent, and in the case of tires, exceeded 50 per cent. Thirty per cent of Sava Kranj's production was exported under Semperit's name, while 20 per cent was exported under its own name. Sava Kranj has grown rapidly in its first ten years of the joint venture with Semperit but expects its annual growth of exports to slow down somewhat to 5-10 per cent.

Tires with the Sava label compete directly with other quality radial tires, such as Goodyear, Firestone, and Michelin. The combined share of Semperit and Sava in the world market is about 2 per cent. They did not reduce prices following the depreciation of the dinar, and felt that it was more important to concentrate on improving the quality of the tires.

Imports amounted to US$63 million for the group as a whole in 1982, and US$54 million for Sava Kranj. More than 80 per cent of the imports were paid in convertible currencies including natural rubber, various special synthetic rubbers, and steel wire for radials; these imports could only be obtained from the convertible currency countries. The share of imports in raw materials for the production of tires is about 85 per cent, more than 90 per cent for trucks, and less than 80 per cent for automobiles. As a percentage of the export price, import costs amounted to 70-75 per cent. The director of Sava stated that it was essential that Yugoslavia start producing more of the raw mateial inputs that are now imported. A project which would produce synthetic rubber is near completion and is expected to begin operation in August or September 1983.

f. Slovenijales

(1) Structure

This composite organization of associated labor (COAL) consists of 23 work organizations for production and one for trade, as well as 22 foreign subsidiaries and representative offices abroad. More than 15,000 workers are employed in the production primarily of furniture and wood products, but also a diversity of consumer goods and machinery and equipment. The trade organization is one of the ten largest wholesale and retail organizations in the country, also selling the output of smaller enterprises. In 1982 turnover was more than $1 billion (based on an exchange rate of Din 63.4 = $1), income exceeded $200 million, and after-tax profits were approximately $10 million. Foreign subsidiaries are located in Canada, the United States (the 49th largest such subsidiary for furniture in the United States), Germany, Italy, the Central African Republic, etc. There are also representative offices in other important markets, including the United Kingdom, France, Sweden, Denmark, Spain, the U.S.S.R., and Czechoslovakia. Production facilities are also located in Austria and Australia. About 30 per cent of sales stem from production at Slovenijales' own facilities; most of its other sales consist of goods produced by Yugoslav enterprises that are not part of the COAL, Slovenijales.

(2) Foreign trade

Exports in 1982 included more than $250 million from the trading organization (of which about 60 per cent went to the convertible currency area and 40 per cent to the nonconvertible area) and the producing organizations exported directly an additional $12 million in goods (i.e., not channeled through the trading organization). Of the $250 million, $48 million of the exports were produced by Slovenijales, the remainder representing distribution of the output of other Yugoslav enterprises. The company is estimated to be the third largest net exporter in the country, with exports to the convertible currency area 2.5 times the value of convertible currency imports. Total imports in 1982 were $140 million.

The most important export markets are in the EC, EFTA and the US. Taiwan, Romania, Czechoslovakia and Poland are considered to be among the main competitor countries. Export demand is perceived to be strong for specially designed products but in general the company aims at the lower end of the market for mass-produced medium-priced furniture.

2. Commercial banks

a. Beobanka

Beobanka is the largest of the 22 basic banks which comprise the Associated Beogradska Banka; all of them are in Serbia except for one basic branch in Sarajevo and one in Ljubljana. Beobanka is the leading bank for both enterprises and households in the Belgrade area and figures importantly in housing construction finance. Beobanka accounts for 34 per cent of the combined balance sheet of the Associated Bank, of which its short-term deposits comprise 24 per cent and long-term deposits 10 per cent of total liabilities. The bank's founding enterprises cover a wide spectrum of economic activity but are concentrated in the industrial sector, including firms that produce agricultural machinery, motor vehicles, textile products, electrical products, etc. Most of the enterprises engaged in foreign trade in Serbia are founding members of Jugobanka. Beobanka is relatively liquid and uses only 9 per cent of its short-term deposits to cover long-term lending, indicating less of an imbalance between the maturity structures of assets and liabilities than in most other Yugoslav banks. Its foreign exchange liquidity is also satisfactory even though generally speaking Belgrade is not an export-oriented area.

Any losses of the bank would be covered first by two reserve funds, a Solidarity Fund and a Risk Fund, and losses that could not be covered by these funds would be shared by the member enterprises in proportion to their outstanding credit from the bank. Similarly, bank profits would be shared with members in proportion to their deposits with the bank.

b. Privredna Banka Zagreb (PBZ)

(1) Structure

The bank, established short after World War II, has typically had a greater than average involvement in the financing of large investment projects, partly reflecting the fact that its founding members are generally the largest in Croatia. Its extensive financing of large-scale investments under both the 1971-75 and the 1976-80 Plans were concentrated in infrastructure, the energy sector (with INA comprising 60 per cent of the oil sector), and agriculture (its members account for 40 per cent of the agricultural sector in Croatia).

(2) Origin of external financial difficulties

PBZ participated to a greater than average extent in foreign borrowing in the 1970s, including both financial credits and the financing of investment goods. This led to an external debt that cumulated to \$1.7 billion, of which two-thirds was for infrastructure and energy and 30 per cent for agriculture while only 6 per cent was related to export production. Owing to the composition of the bank's customers, PBZ received only 25-30 per cent of the foreign exchange in Croatia. Debt servicing problems did not arise until the end of the 1970s, however, as the foreign exchange market functioned well until then. But when PBZ was unable to obtain the required foreign exchange from other banks, it borrowed short-term credits in 1980 and 1981 to finance its external payments obligations. Consequently, short-term external debt had cumulated to $638 million by the end of 1981. Together with scheduled amortization of medium- and long-term credit in 1982, a total of more than $1 billion was scheduled to be repaid that year, and more than $800 million of this amount was actually paid.

(3) External position and debt service estimates

At the end of 1982 short-term debt amounted to $475 million, and there were arrears of $184 million, comprising $49 million in interest and $135 millin in principal. All overdue interest payments have now been made but as of mid-May arrears on repayment of principal amounted to about $100 million. On January 16, 1983 arrears in respect of principal and interest amounted to $196 million.

Scheduled debt-service payments in 1983, encompassing both direct external debt and that of enterprises which is guaranteed by the PBZ, are estimated at $450 million, including $200 million for interest and $250 million for principal. Of this latter amount, nonguaranteed bank-to-bank debt is estimated to be $140-150 million (subject to reconciliation of creditor and debtor bank statistics). For 1984 scheduled repayments of principal amount to $320 million and interest payments are estimated at $160 million, for a total of $480 million. This assumes an interest rate of 14 per cent for the floating rate debt (approximately three fifths of the total). Debt service for 1985 is projected at $446 million, $133 million in interest and $313 million in principal. Outstanding debt owed to the Exim Bank amounts to $268 million, of which $57 million is due in 1983. There is now very little short-term debt of the PBZ owed to U.S. banks. Most of it is owed to European banks which reduced their short-term exposure to PBZ, though not as sharply as did the U.S. banks.

(4) Interest rates

The average interest rate paid by enterprises, expressed as the ratio of interest payments to net income (i.e., revenue less material costs, less depreciation), was 7.6 per cent for Croatia in 1981, and 10.3 per cent for the enterprises of PBZ. For 1982, the corresponding average interest rates were 10.1 per cent for Croatia and 15.5 per cent for members of PBZ. The corresponding figure for firms of PBZ in 1983 could be on the order of 20 per cent, based on the interest rates currently in effect.

(5) Formation of associated bank

Plans are underway to amalgamate basic banks in Croatia into an associated bank, implying inter alia that the basic banks would be jointly and severally liable for all debts of these banks. The proposal for forming the associated bank should be placed before the Croatian Assembly by the end of June, after which time several months more would be required before regular operations could begin. A basic bank may be a member of more than one associated bank, and the status of Ljubljanska Banka Zagreb and Jugobanka Zagreb is not yet settled. In any event, these two banks would need to establish some relationship with the associated bank in Croatia even if they did not formally join it.

c. Zagrebacka Banka

This bank was formed some five years ago with the merger of Kreditbanka Zagreb and Jugobanka Zagreb. This basic bank has a staff of 4,500 people organized in 21 work organizations and 84 retail offices covering most of the Republic of Croatia. Assets amount to Din 245 billion. There are 2,000 founding members (enterprises) covering most economic branches except nuclear energy and the oil sector. Of particular importance are the manufacturing of industrial equipment (Rade Koncar), foreign trade, the food processing industry and tourism. Some two million individuals hold savings accounts with the bank. Also, it adminsters a World Bank project in the agricultural sector.

d. Ljubljanska Banka

(1) Structure

Ljubljanska Banka is an associated bank comprising 21 basic banks. Like Jugobanka it has branches throughout the Federation. Total assets at the end of 1982 amounted to US$8.5 billion. Ljubljanska Banka was originally formed as a savings bank more than 100 years ago, but developed into a commercial bank after the World War II. It remains one of the largest, if not the largest, collectors of private savings, with some three million individual accounts, the deposits of which correspond to 40 per cent of the bank's liabilities.

(2) Interest rates

Ljubljanska Banka was hesitant to draw any definite conclusions as to the impact of the increase in deposit rates on February 1, 1983 (with increases retroactive to January 1 for those funds on deposit at the beginning of the year), stating that effects had not been felt until March. Deposits in the new three- and six-month instruments introduced on February 1, were running somewhat below the planned level. At the end of March, such deposits amounted to Din 1 billion, compared with the aim for the year as a whole of Din 10 billion. During the first three months of the year deposits had increased as follows:

	(In per cent)
Long-term dinar deposits	53.0
Dinar sight deposits	4.7
Long-term foreign currency deposits	30.0
Short-term foreign currency deposits	20.0

Lending rates in effect on May 1 were as follows (most were adjusted February 1, some in April):

Short-term	(In per cent)
Working capital	30
Export	12
Agricultural stocks	16
Retail stocks, foodstuffs	18
Other selected purposes	24
Long-term	(In per cent)
General investment (non-priority)	30
Land improvement (e.g., drainage)	6
Other agriculture	10-15
Other private	18-21
Consumer lending	
Less than one year	20
More than one year	25
Interbank loans	26

Lending for land improvement, at 6 per cent, was negligible.

On average, the new interest rates represented a 50 per cent increase over those in effect previously. The average interest rate on new credits on a weighted basis was guesstimated at 20 per cent after the February increase.

YUGOSLAVIA

INTERNATIONAL MONETARY FUND

Kuwait Foreign Trade Contracting and Investing Company (KFTCIC)

Brian Rose

Office Memorandum

cc: Pl copy to Martin

TO : Mr. L.A. Whittome

DATE: May 26, 1983

FROM : Helen B. Junz

SUBJECT : Yugoslavia--Bank Package

As agreed yesterday, I called Popovic today. I stressed the need to proceed with final documentation of the bank package as quickly as possible. Popovic, very much confirmed Dobrich's view that "the Yugoslavs are acting as if they were negotiating a syndicated loan from strength". He told us that the final documentation received from the banks had arrived on May 17, and that it had taken them this long just to understand it. They had retained a New York Law firm who was working with them now. He expected Dobrich to arrive today and said that he thought negotiation of the document would take at least a week. It included matters that "were precedent setting and involved very much internal matters". Therefore, things would have to be considered carefully and he felt Yugoslavia must be in a position "not just to accept the banks' documentation, but to negotiate it".

I pointed out to him that lengthy negotiations of what was largely an agreed document already - given that most of the basic issues had been agreed in the March document - would jeopardize the entire time schedule. If the ICC cannot go to print with the documentation next week, the joint efforts to convince the US regional banks to participate would be delayed, responses would be pushed into July and disbursement could well be delayed a month. I also asked him about progress with Kuwaitis regarding the negative gold pledge situation. He said things were where they had been, that this was a bilateral matter between Yugoslavs and Kuwaitis and that he could tell us nothing more. I suggested, now that the French banks had agreed, that certainly the effects of further delays were much more than a bilateral matter. I had in mind that the bank package is contingent upon a US$500 million BIS loan, that repayment of the first tranche of the BIS loan is due very quickly and that one had relied on disbursement of the bank package to help meet that date, and finally that the August 15 purchase by Yugoslavia under the stand-by is conditional upon all the financial elements coming together.

If it turns out that, indeed, the final negotiation of the banks' document runs a week or more, your intervention with Dragan or at a higher level, impressing the Yugoslavs with the seriousness of any material delays, should be contemplated.

cc: Mr. Manison
CED

cc: LM & WL.

Lyme Pl telephone substance of this to our colleagues in Belgrade and then to pursue it. I can certainly alert Dragan if they think that useful?

YUGOSLAVIA

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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1983 MAY 26 AM 8:37

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~~FUND~~ MISSION TO BELGRADE WILL ARRIVE MAY 30, EXCEPT FOR MR. WHITTOME, WHO ARRIVES JUNE 5. MISSION WILL STAY AT MOSKVA HOTEL.

REGARDS,

BRIAN ROSE

INTERFUND

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): BRIAN ROSE EXT.: 73377 DEPT.: EUR DATE: 5/26/83

~~AUTHORIZED BY~~ NAME (TYPE): AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SEC. 48 REV 1 11-18-82

Brian Rose

SIGNATURE

Office Memorandum

TO : Mr. Whittome DATE: May 25, 1983

FROM : Helen B. Junz

SUBJECT : Yugoslavia Bank Package

I spoke with Dobrich in London today, who told me that "the US$600 million and the six-year maturity are safe." He said that the meeting had not been easy, but had been helped materially by the P.M. and M. numbers which showed that the US$600 million represented 8.75 per cent of the agreed base exposure, well below the over 10 per cent a number of participants had feared. He asked for help with the Yugoslavs who, in negotiating the final loan document, were suddenly reopening all sorts of basic issues, such as the definition of LIBOR, of taxes, etc. In his view they were behaving as if they were negotiating a syndicated loan from strength. He feels he must have a signed document by late Saturday if the whole thing is to hold together. He would find a call from us to Popovic expressing our satisfaction at the results of the London meeting and our "reliance on the Yugoslavs now to do their thing on time" (sic) most helpful.

With regard to bringing the 600 odd syndication participants on board, he informed me that the Yugoslavs now were proposing June 6-8 as their most convenient dates. They would confine themselves to meetings in the United States as the European banks feel no need for such visits. He stressed the ICC's disappointment if no supporting letter from the IMF were to be forthcoming. He felt that a rather abbreviated communication would suffice. It could include no more than the Managing Director's expression of satisfaction that the ICC had come to an agreement with the Yugoslavs as the remaining element of the joint Government, financial institution and banking community's effort on behalf of Yugoslavia. It would, however, need to include some words about the Yugoslavs doing their part in terms of a stabilization effort under IMF monitoring. He did not think that there was a need for specifics regarding the adjustment effort. He would like to have a sense of what would be possible by the end of the week.

cc: HBJ

Thanks.

1) Would you phone Popovic

2) Pl ask Leo to try his hand at an abbreviated letter & let's see what it might look like.

LAW 25/5

cc: Mr. Manison
CED

cc: LM

Office Memorandum

TO : Mr. Whittome

DATE: May 24, 1983

FROM : L. G. Manison LGM

SUBJECT : Yugoslavia

Efforts today to contact the Yugoslavs and to obtain positive information have been largely unproductive. I was unable to get in touch with any of our usual contacts at the Secretariat for Finance, including Mr. Popovic. Mr. Korosec, a vice governor at the National Bank, said that the Yugoslavs were expecting a reply tomorrow from the Kuwaiti authorities on the subject of the waiver of the negative gold pledge by all banks.

I talked to Mrs. Hofmann about hotel accommodation in Belgrade, but as usual she had nothing firm to say.

I will telephone these various people tomorrow and hopefully the results will be more positive.

Thanks

cc: Mr. Hansen
Mr. Lewis

2

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REPEAT OUR TELEX NR ~~140~~/ 14728

cc: Pl copy to Mertz

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INTERNATIONAL MONETARY FUND
WASHINGTON DC

ATTENTION MR. WHITTOME, EUROPEAN DEPARTMENT

HBJ
DR
CED

VERY URGENT

THE FOLLOWING TELEX HAS BEEN SENT TODAY TO
R. D. EBERT, EVP AND MR. F. DOBRICH, SVP OF MANUFACTURERS
HANOVER TRUST, NEW YORK:

QUOTE

AFTER OUR EXCHANGE OF VIEWS ON THE MEDIUM TERM FACILITY ON MAY 21 AND MAY 22 IN BELGRADE, WE ARE READY NOW TO START NEGOTIATIONS ON THE DRAFT MEDIUM TERM AGREEMENT. THEREFORE, WE EXPECT THAT YOU WILL COME TO BELGRADE FOR NEGOTIATIONS PURPOSES, ON THURSDAY MAY 26, AS AGREED DURING YOUR LAST STAY IN BELGRADE, ACCOMPANIED BY ALL YOUR ASSOCIATES, MEMBERS OF THE ICC, WHO NEED TO ATTEND THE NEGOTIATIONS SESION IN ORDER TO BE ABLE TO TAKE DECISIONS ON THE SUBSTANTIAL ISSUES. SINCE WE HAVE RECEIVED THE DRAFT MEDIUM TERM AGREEMENT ONLY ON MAY 17, IT IS OUR BELIEF THAT EVERYBODY INVOLVED SHOULD DO ITS BEST TO ACCELERATE TO THE MAXIMUM POSSIBLE EXTENT THE PROCESS OF NEGOTIATIONS TO MAKE UP FOR THE DELAY AND MEET THE DEADLINE DATE.
KINDLY LET US KNOW HOW MANY PEOPLE TO EXPECT SO AS TO ENABLE US TO MAKE THE NEEDED HOTEL ACOMODATION.

UNQUOTE

KINDEST REGARDS,
YUGOSLAV GROUP FOR COORDINATION
G. POPOV@C,
CHAIRMAN

440040 FUND UI

Office Memorandum

May 24, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

Manufacturers (Ebert) had earlier envisaged a meeting in New York this week of all the U.S. banks involved at which the present position would be set out and questions answered. It was hoped that this would speed the decisionmaking process and ensure that the requisite agreement was on the table by June 25. They also envisaged separate meetings in London and Frankfurt.

Subsequently Ms. Mudd asked that we circulate a note to all the banks concerned as we did with Chile. But on that occasion we were able to describe the new measures that had just been agreed in order to put the program back on course. With Yugoslavia we have no new measures but rather a number of actions taken earlier which have not been as effective as had been hoped. In consequence the draft prepared seemed to me to invite more questions than it answered. In consequence we have told Ms. Mudd that a note would give us difficulties but we could see our way to making a short preparation to the bankers at the various meetings.

Meanwhile the timetable for the meetings has slipped--there is now talk of the week beginning June 6--and the number of meetings has multiplied to some four to five in various U.S. financial centers alone.

If the meetings in Europe take place this next week Mentré should attend. If they too are delayed then the only person available who has the necessary background for both the European and the U.S. meetings is Mrs. Junz.

L.A. Whittome

cc: Mr. Mentré
Mrs. Junz
Ms. Ripley

Office Memorandum

May 23, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Polak tells me that he has now decided to go to Belgrade; he plans to arrive on the evening of June 7 and asks that I dine with him that evening. I asked him to keep the time open for perhaps Wednesday morning will be more convenient given that the Managing Director will arrive on the afternoon of June 7 and will require meeting and briefing.

L.A. Whittome

cc: Mr. Mentré
Ms. Ripley
Mr. Manison

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA
FEDERAL SECRETARIAT FOR FINANCE
11070 BEOGRAD

Ofice of the Federal Secretary

Belgrade, May 23, 1983

The International Monetary Fund
700, 19th Street, N.W.
Washington, D.C., 20433

Att.: Mr. L.A. Whittome
Counsellor and Director of the
European Department

Dear Mr. Whittome,

Let me first thank you for the letter you sent by Mr. Mentre, which I consider as continuation of our talks started last month in Washington.

Before referring to the issues that have caused your concern, allow me to express our appreciation for the fact that the drawing of the funds scheduled for May 15 was presented and approved by the Board of Executive Directors.

As you are well aware, the implementation of the economic stabilization programme remains our basic strategic target and we are ready to act within the limits that will not hamper the production and that will be socially sustainable.

However, with the strong determination to implement the economic stabilization measures, it should be recognized that a period of several years is needed for achieving their full effects, as the disturbances in the Yugoslav economy are of a longer term nature.

In the past a large volume of investments was registered in the infrastructure sector and these investments do not give effects over a short period. Investments are assessed to be the key problem that has generated the inflation, so that in this sector adequate measures are being taken. Therefore, curbing of the inflation rate will require a certain period of time. The reduction of the inflation rate in the forthcoming period is even more significant as it would entail, inter alia, the decrease of the need to adjust the exchange rate of the Dinar and nominal interest rates. The inflation rate in 1983 is to a certain extent the result of adjustments effected insofar in the changes of relative prices of certain goods, of the Dinar exchange rate adjustment and of the interest rates level increases. That is why we consider that in the forthcoming period priorities should be attached to the adjustments by means of decreasing the inflation rate.

As to the general assessment of the Yugoslav economy performance in the first quarter of this year, of special importance is the analysis of economic developments that the Federal Executive Council will present to the Assembly of Yugoslavia at the end of May. On the basis of the Federal Assembly conclusions additional measures will be taken for the implementation of the Resolution for this year, whose basic orientations are included in the Letter of Intent. These measures will represent a further build-up of our economic policy in this year. At the same time a basic orientation of the economic policy for 1984 will be set.

The results achieved by the Yugoslav economy in the first four months of this year, in particular in the trade balance sector, indicate its capability to achieve targets set forth by the Resolution and primarilly a significant increase of exports to the hard currency area. A series of measures has been taken so far and certain adjustments were achieved in the areas of the Dinar exchange rate, interest rates, share of general and collective consumption in the social product and in the area of personal incomes reduction in real terms. The decrease of personal incomes by about 10% in real terms indicates that their further fall must not be allowed.

However, the slowness in the external financial support realization is becoming an increasingly limitating factor for the output and exports increases. If this continues many restrictive measures already undertaken will not give the expected results.

As regards the assessment relating to the external financial position deterioration, I wish to point out that for the time being we have no reason to believe that the behavour of commercial banks and the attitude of certain governments, respectively, will result in a reduction of the financial support volume. We also consider that no essential dissentions from the deficit projection in the current account balance for this year will occur.

In our negotiations with the commercial banks we are currently studying their offer which now contains some quite new elements. We will try jointly with the banks to adjust their offer to what was previously agreed and we will make maximum efforts on our part to maintain the envisaged term, June 27, although the procedure of the very signing of the Agreement is beyond our control. We are also making efforts so as to see the remaining part of the BIS credit realized by the end of this month.

In the field of the domestic economic policy special efforts are being made to bring the general and collective consumption within the envisaged frameworks. The Law on Execess Revenues of the Socio-Political Communities and Self-Management Communities of Interest of March 31, 1983 already enables us to have monthly determination of excess revenues of the general and collective consumption and their depositing in special accounts; in this connection there is no need for proposing amendments of this Law.

In the sense of efficiency of this Law, may I point out that in the frameworks of the funds set aside for satisfying general social and common needs of the Republics and Autonomous Provinces about 40% is used for the purposes having a character of personal receipts. These funds are adjusted in line with the personal incomes increase in the previous year. The provisions relating to the compensation funds having the character of personal receipts are regulated by the Resolution for 1983 as well as by the Law on Excess Revenues and the Republican and Provincial laws, respectively. The Resolution also envisaged for the regulations, relating to the area of financing the general and collective consumption, to reconsider the right of all beneficiaries with the objective of reducing these rights to the realistic possibilities of the society.

As to the dynamics of the federal budget revenues in the first four months, I point out that the overall revenues of the federal budget, over the period January-April, 1983, were realized at the level of 24,8 out of the planned funds, or by 8,5 points less in relation to a balanced dynamics of the annual plan realization. Over the same period of the last year, the overall revenues of the federal budget were realized with 25,5% out of the total realization, i.e. by 7,8 points less than a balanced dynamics.

In the field of fiscal policy in 1983 a basic turnover tax was introduced on natural wines, recreation means, hand tools, sugar, etc., being the revenue under this tax meant to exclusively finance the budget. This has a direct impact on the reduction of the purchasing power of the population. If due to automatism of this tax effect the revenues of the socio-political communities increase beyond the agreed policy of revenues for general social needs, the excess funds shall be detained in special accounts pursuant to the Law on Excess Revenues of the Budgets of the Socio-Political Communities and Excess Revenues of the Self-Management Communities of Interest for Social Activities in 1983.

Let me now refer more in detail to the inter-enterprise financing mechanism that you consider as an element limiting our monetary policy efficiency. Inter-enterprise borrowings relating to the sales of goods, products and services, not directly covered by the issue of promisory notes and other payment instruments increased faster than the financial results of their economic activities. This was the result of the stagnation in production, increases of stocks of materials /due to the problems with the imports and shortages of raw materials and energy/ with a simultaneous implementation of the restrictive credit and monetary policies.

Under the circumstances of having the inflows of monetary resources of the economy reduced and with the restrictive credit policy, inter-enterprise financing increased. Proposed amendments in the Law on the Social Accounting Service and in the Law on provisions of payments among the users of social funds, in the sense that the obligations towards creditors have priority, are expected to have a direct impact on the reduction of the mutual borrowing levels.

In the Law on Rehabilitation and Bankruptcy of organizations of associated labour, among other measures that would be undertaken towards the loss making enterprises, a possibility was envisaged that a bank may postpone, for such organization, at its request, the repayment of the debt. On such debt repayment postponement the decision is taken by the competent bank body concurrent with the conditions envisaged in the self-management agreement, taking into account the rehabilitation programme and the realistic prospects for the enterprise to eliminate the causes of losses it incurred by the implementation of that programme. On the other hand it should be borne in mind that other measures proposed in that Law should bring about the determination of individual and of the managing organs responsibility, respectively, for the losses incurred, the undertaking of measures against them as well as a faster initiation of bankruptcy procedure in case those enterprises do not manage to cover their losses and have no conditions for eliminating the causes that resulted in their loss making.

Reference your concern as to whether the additions and amendments of the Law on Foreign Exchange Operations and International Credit Relations provide sufficient stimulation to the exporters and optimal foreign exchange allocation for essential imports, I wish to point out the following:

By the amendments and additions to the Law on Foreign Exchange Operations and International Credit Relations, passed at the end of 1982, the subjects of the Yugoslav economy are entitled to acquire major foreign exchange rights under the exports of goods and services and foreign exchange earned in this way, being at the same time free to distribute the foreign exchange where it is most indispensably needed for the increase of exports. The purpose of the amendments and additions to the Law was the best possible linkage of the reproduction process flows and the provisions for the production prices to be as competitive as possible in the international markets with a paralel shortening of the trade exchange terms.

In line with the Law on Foreign Exchange Operations and

International Credit Relations, and with the objective of carrying out the provisions of the unique criteria of the article 69a of the Law mentioned above, it was concluded that the self-management agreements of the organizations of associated labour, establishing their share in jointly realized foreign exchange inflow, in the frameworks of determined activities and in line with mutually recognized reproduction needs, be concluded by June 30, 1983 in the frameworks of General Associations of the Chamber of Economy of Yugoslavia.

As to the need for further increases of nominal interest rates level, that you envisage, I have to point out that the implementation of the real interest rates policy, defined in the Letter of Intent, is seen in the frameworks of a mid term program. At the same time one should bear in mind the causes of the inflation rise which in our case is not only demand-pull. Starting from the medium term programme of eliminating the negative real interest rates, we consider that a higher increase of prices in the past months of this year does not represent a basis for the interest rate increase. We also have to recognize that the inflation increase was the result of the one-time increase of prices in some sectors, carried out in order to eliminate price distortions.

A new increase of interest rates would, in our opinion, cause further loss increases in the economy and the decrease of its accumulative capacity, particularly in the circumstances of deteriorated supply of reproduction materials.

As you have mentioned, we are going to discuss the exchange rate issue in June, but may I immediately say that the possibilities are limited for acting further on the economy with additional measures in the exchange rate of the Dinar. This is due to insufficient quantities of raw materials and intermediate inputs needed for the conomy, a high degree of import dependance and a high burden of the Yugoslav economy in the sense of its obligations of repaying the external debt.

In such conditions further depreciation of the exchange rate of the Dinar in the second half of the year, above the agreed 0,5% points monthly above the price differentials, would lead to a further increase of prices and of costs and to the distorsion of domestic prices.

I hope the above clarifications in connection with the issues raised in your letter to contribute to a successful consultation with the Fund mission in the course of June.

Best regards,

Sincerely,

Jože Florjančič,
Federal Secretary for Finance

Florjančič

Office Memorandum

Mr Manison is dealing

TO : Mr. Whittome

DATE: May 23, 1983

FROM : L. G. Manison LGM

SUBJECT : Yugoslavia--Draft Letter to Foreign Commercial Banks

As indicated in my memorandum of last Friday to you on "Yugoslavia" the ICC for commercial bank support to Yugoslavia is asking that the Managing Director send a letter to bank creditors to Yugoslavia. I attach a draft of a possible letter and also a copy of the letter that was sent to Chile's bank creditors from the Managing Director.

Attachment

cc: CED

DRAFT/LMansion
5/23/83:19

Draft Letter from the Managing Director
to Bank Creditors of Yugoslavia

1. At the beginning of 1983 the Yugoslav economy was characterized by very low stocks of external reserves and imported goods and little in the way of foreign credits in the pipeline. At the same time, substantial external financing needs were to be faced in 1983 because of large external debt servicing obligations and the prospect of a sizable current account deficit. Given these balance of payments pressures, the Yugoslav financial program for 1983 has as its major objective the bringing about of a sustained improvement in the external position. On March 11, 1983, the Executive Board of the IMF approved the third year of the stand-by arrangement with Yugoslavia in support of this financial program. The Fund stand-by arrangement is part of an interlinked package of international financial assistance to Yugoslavia aimed at supporting Yugoslavia's adjustment efforts.

2. The objective of putting Yugoslavia's balance of payments on a more viable basis is to be accomplished by policies that speed up the process of structural economic adjustment and restrain domestic demand. A principal element of the program is the provision of adequate incentives for the sustained expansion of export production. To this end a more active exchange rate policy is being pursued and efforts are being made to improve the foreign exchange allocation system. Administered prices are being adjusted so as to bring domestic prices into line with international prices in order to eliminate the price distortions that have adversely affected production. [Already this year prices of certain key commodities, including electricity, coal, railway fares, meat, petroleum,

and rents have been raised by 25-35 per cent.] Interest rates are also being significantly increased in line with the official policy of achieving real positive interest rates and this together with the undertaking of measures recommended by the World Bank will improve the efficiency of the investment program.

3. The more active exchange rate policy, the administered price adjustments, and higher interest rates will inevitably lead to an initial increase in the inflation rate. However, the containing of inflation and the shifting of resources into net exports will require further domestic demand restraint. Real domestic demand is to be reduced significantly in 1983 primarily by the implementation of tight incomes, fiscal and financial policies. Control over the growth of nominal personal incomes is a vital element in the stabilization program and for 1983 the Government has adopted a target of reducing real wages by 7 1/2 per cent below their 1982 level. Fiscal policy has been further tightened in 1983 with stringent limits placed on the growth of public expenditure. The observance of these limits is to be closely monitored on a monthly basis with excess revenues set aside and sterilized in a blocked account with the National Bank. The supporting financial policies include the placing of [quarterly] limits on the growth of net domestic assets of the banking system, the implementation of legislation to help control the increase in interenterprise credits, and the requirement that no National Bank credit be extended to finance the budget of the Federal Government in 1983.

4. Yugoslavia's prospective financing needs under the program for 1983 reflect a projected current account deficit with the convertible currency

area of at least US$0.5 billion, maturing medium- and long-term debt of US$2.6 billion, maturing short-term debt of US$1.8 billion, and other obligations amounting to some US$0.5 billion which include the clearing up of payments delays.

5. Toward the end of 1982 it was decided that in view of Yugoslavia's low level of foreign exchange reserves the gross financing needs for 1983 could not be met in the normal manner. As a result, a financing plan comprising a number of interdependent special financing elements was worked out. These elements were as follows:

a. The Bank for International Settlements would provide a short-term bridging credit contingent upon adequate financial resources becoming available from international financial institutions and under the inter-governmental financial assistance package.

b. The representatives of the governments of 15 countries agreed on January 19, 1983 in Berne to provide Yugoslavia with new medium-term economic credits totaling US$1.3-1.4 billion.

c. Foreign commercial banks accounting for a large part of debt due from Yugoslav entities agreed not to ask for payment of maturing debt for 90 days starting January 19, 1983. This was to allow the banks breathing space to work out a financing package with Yugoslavia that would allow the orderly repayment of maturing debt, coverage of the expected current account deficit in 1983, and some buildup of external reserves.

d. The World Bank would move as expeditiously as possible to respond to the Yugoslav Government's request for a structural adjustment loan.

e. The Managing Director of the IMF would, if all the elements of the financing package were in place, recommend to the Executive Board approval of the phased disbursement of the final tranche (SDR 554 million) of the three-year stand-by arrangement, subject to the observance of conditions set out in the letter of intent from the Yugoslav authorities.

6. Considerable progress has been made in putting these various elements of the financing package in place. Yugoslav performance under the stand-by arrangement with the IMF in 1983 has been satisfactory, with Yugoslavia making two purchases from the Fund, the latest being in mid-May. However, Yugoslavia's external finances continue to be severely constrained and any slippage in the timing and amounts of funds contemplated under the international financing package could have very adverse consequences. The current shortage of foreign exchange for financing essential imports for export-oriented production and tourism is a major problem inhibiting the adjustment process. In this context, it is crucial that the commercial banks quickly disburse a loan of no less than US$600 million to Yugoslavia. It is essential also that short- medium- and long-term debt maturities falling due continue to be rolled over or refinanced.

7. The International Monetary Fund through quarterly visits of the staff to Yugoslavia is closely monitoring performance under the financial program and constantly reviewing economic policies. To date during 1983 Yugoslavia has met the quantitative performance criteria under the Fund's stand-by arrangement with Yugoslavia. The Yugoslav Government has stated that it will request further stand-by arrangements for 1984

and beyond and the staff will begin considering this request in the final quarter of this year. Indeed, the contributions of the 15 governments and of the commercial banks to the international support package are conditional upon the continuation of stand-by arrangements.

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

LIST OF TWO

FINAL TELEX

CC: MD
DMD
Mr. Guitian

1. THE CHILEAN FINANCIAL PROGRAM FOR 1983 WAS SUPPORTED BY A STAND-BY ARRANGEMENT APPROVED BY THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND ON ~~JANUARY 10~~ MARCH 14, 1983. AFTER FIVE YEARS OF STEADY GROWTH, CHILE'S REAL GDP EXPERIENCED A DECLINE OF SOME 14 PER CENT IN 1982, AS A RESULT OF THE WORLD RECESSION, THE STRONG APPRECIATION OF THE PESO, AND A DOMESTIC BANKING CRISIS. THE BASIC AIM OF THE FINANCIAL PROGRAM SUPPORTED BY THE FUND IS TO ESTABLISH POLICIES THAT WOULD RESTORE CONFIDENCE AND WOULD LAY THE BASES FOR ECONOMIC RECOVERY WITH A SATISFACTORY BALANCE OF PAYMENTS PERFORMANCE AND A GRADUAL REDUCTION IN THE RATE OF INFLATION. THE SIZE OF CHILE'S EXTERNAL INDEBTEDNESS AND CHANGED CONDITIONS IN WORLD CAPITAL MARKETS HAVE MADE IT NECESSARY FOR THE PROGRAM TO CALL FOR HEAVY RELIANCE ON CHILE'S OWN SAVINGS TO FINANCE RECOVERY.

2. THE PRINCIPAL ELEMENTS OF THE PROGRAM ARE: RESTORATION OF COMPETITIVENESS THROUGH THE PURSUIT OF A

12211 or 128145

Jvan Houten 74971 WHD 4/28/83

E. Wiesner E.W.

Laosine

MORE ACTIVE

FLEXIBLE EXCHANGE RATE POLICY, ELIMINATION OF WAGE INDEXATION AND A LOWERING OF THE WAGE FLOOR FOR COLLECTIVE BARGAINING, PROGRESSIVE ELIMINATION OF THE DEFICIT OF THE NONFINANCIAL PUBLIC SECTOR, AND MONETARY RESTRAINT. THE MOST DIFFICULT ASPECT OF THE PROGRAM CONCERNED THE AUTHORITIES' ABILITY TO MAINTAIN TIGHT CREDIT POLICIES AMIDST INCREASED DEMANDS FROM PRIVATE ENTERPRISES AND FINANCIAL INSTITUTIONS FACING HIGH DEBT SERVICE PAYMENTS. TO ENSURE COMPLIANCE WITH THE PROGRAM, QUARTERLY LIMITS OR TARGETS WERE SET FOR THE NET DOMESTIC ASSETS OF THE CENTRAL BANK, THE NET INTERNATIONAL RESERVES OF THE CENTRAL BANK, THE OUTSTANDING INDEBTEDNESS OF THE NONFINANCIAL PUBLIC SECTOR, AND THE CONTRACTING AND GUARANTEEING OF EXTERNAL DEBT BY THE NONFINANCIAL PUBLIC SECTOR. THE PROGRAM ALSO CONTAINS THE CUSTOMARY INJUNCTION ON THE IMPOSITION OF NEW TRADE AND EXCHANGE RESTRICTIONS.

3. SHORTLY AFTER THE STAND-BY ARRANGEMENT WAS APPROVED, A FINANCIAL CRISIS TOUCHED OFF A SERIES OF EVENTS THAT HAVE

RESULTED IN THE INABILITY OF CHILE TO MEET THE NET DOMESTIC ASSETS AND NET INTERNATIONAL RESERVE GOALS FOR MARCH 31, 1983. HOWEVER, THE PERFORMANCE REGARDING THE INDEBTEDNESS OF THE NONFINANCIAL PUBLIC SECTOR AND THE CONTRACTING OF PUBLIC AND PUBLICLY-GUARANTEED DEBT WERE WELL WITHIN THE ESTABLISHED LIMITS. THE PRINCIPAL FACTORS EXPLAINING THE DEVIATION OF THE NET DOMESTIC ASSETS AND THE NET INTERNATIONAL RESERVES FROM THE PROGRAMED PATH WERE (1) THE CESSATION BY FOREIGN BANKS OF LENDING TO CHILE AS OF JANUARY 13, 1983, WHILE PRINCIPAL PAYMENTS CONTINUED THROUGH JANUARY AND CERTAIN CORPORATE SECTOR PRINCIPAL PAYMENTS CONTINUED TO BE MADE IN FEBRUARY AND MARCH, AND (2) A CENTRAL BANK CREDIT POLICY WHICH COMPENSATED NOT ONLY FOR THE SHORTFALL OF BANK CAPITAL INFLOW BUT ALSO ACCOMMODATED PRIVATE SECTOR ATTEMPTS TO REDUCE NET FOREIGN INDEBTEDNESS THROUGH CHANGES IN THE LEADS AND LAGS OF TRADE-RELATED PAYMENTS.

4. THE FUND STAFF HAS RECENTLY CONDUCTED A COMPREHENSIVE

ANALYSIS OF THE IMPLICATIONS OF THE JANUARY FINANCIAL CRISIS IN CHILE AND THE SUBSEQUENT CESSATION OF FOREIGN BANK LENDING FOR THE PROSPECTS FOR ECONOMIC RECOVERY IN CHILE AND FOR THE STATUS OF THE FUND PROGRAM. IT WAS CONCLUDED (1) THAT CONTINUED SUPPORT BY FUND MANAGEMENT WOULD DEPEND ON THE IMPLEMENTATION OF POLICIES CONSISTENT WITH A RETURN TO THE PATH OF THE STAND-BY PROGRAM, (2) THAT A NECESSARY CONDITION FOR THE RESTORATION OF CONFIDENCE WOULD BE A THOROUGH OVERHAUL OF THE FINANCIAL SYSTEM, AND (3) THAT ANY RETURN TO THE ORIGINAL PROGRAM TRACK WOULD REQUIRE THE COOPERATION OF CHILE'S FOREIGN CREDITORS.

5. THE CHILEAN AUTHORITIES HAVE UNDERTAKEN TO IMPLEMENT AN EMERGENCY PLAN DESIGNED TO STRENGTHEN THE FINANCIAL SYSTEM AND TO RETURN TO THE FUND STAND-BY PATH BY SEPTEMBER 30, 1983. THE EMERGENCY PLAN CENTERS ON A DEBT RESTRUCTURING PROGRAM FOR CHILEAN BORROWERS FINANCED BY THE PUBLIC SECTOR. THE COST, ESTIMATED AT 3.7 PER CENT OF GDP FOR THE REMAINDER OF 1983 CALLS FOR ADDITIONAL FISCAL

MEASURES TOTALING 2.1 PER CENT OF GDP, WITH THE BALANCE TO BE PROVIDED BY A FURTHER TIGHTENING OF THE MONETARY PROGRAM. ON THIS BASIS, A "SHADOW PROGRAM" HAS BEEN DEVELOPED UNDER WHICH CHILE WOULD COMPLY BY THE MARCH AND JUNE TESTING DATES WITH (1) THE ORIGINAL PROGRAM LIMIT ON THE NET INDEBTEDNESS OF THE NONFINANCIAL PUBLIC SECTOR, (2) THE ORIGINAL PROGRAM LIMIT AND SUBLIMIT ON THE PUBLIC SECTOR CONTRACTING OF EXTERNAL DEBT, (3) THE CEILING ON CENTRAL BANK NET DOMESTIC ASSETS ESTABLISHED IN THE EMERGENCY PLAN, AND (4) THE NET INTERNATIONAL RESERVE TARGET ESTABLISHED IN THE EMERGENCY PLAN. ON THE BASIS OF FOREIGN BANK COOPERATION AND OF POLICIES IMPLEMENTED UNDER THE EMERGENCY PLAN, IT IS EXPECTED THAT CHILE WOULD BE IN A POSITION TO COMPLY WITH ALL OF THE ORIGINAL PROGRAM TARGETS BY SEPTEMBER 30, 1983.

6. CHILE'S PROSPECTIVE FINANCING NEEDS UNDER THE PROGRAM FOR CALENDAR YEAR 1983 REFLECT GROSS CAPITAL OUTFLOWS TOTALING U.S. DOLLARS 3.8 BILLION CONSISTING OF: (1) U.S.

DOLLARS 1.3 BILLION OF REPAYMENT OF PRINCIPAL ON MEDIUM AND LONG-TERM LOANS TO BANKS, (2) U.S. DOLLARS 0.5 BILLION OF REPAYMENT OF PRINCIPAL ON MEDIUM AND LONG-TERM LOANS TO NONBANKS, (3) U.S. DOLLARS 0.1 BILLION OF REDUCTION IN SHORT-TERM WORKING CAPITAL THAT TOOK PLACE DURING JANUARY OF THIS YEAR, (4) U.S. DOLLARS 0.6 BILLION OF REDUCTION IN SHORT-TERM TRADE RELATED CREDITS THAT TOOK PLACE DURING THE FIRST QUARTER OF 1983, AND (5) U.S. DOLLARS 1.3 BILLION OF REPAYMENT OF SHORT-TERM WORKING CAPITAL OUTSTANDING ON JANUARY 31, 1983. IN ADDITION, A CURRENT ACCOUNT DEFICIT OF U.S. DOLLARS 1.3 BILLION IS PROJECTED FOR 1983, THEREBY RESULTING IN TOTAL FINANCING REQUIREMENTS OF U.S. DOLLARS 5.1 BILLION.

7. GROSS CAPITAL INFLOWS TOTALING U.S. DOLLARS 3.8 BILLION ARE PROJECTED AS FOLLOWS: (1) NET DIRECT INVESTMENT OF U.S. DOLLARS 0.2 BILLION, (2) NET PURCHASES FROM THE IMF OF U.S. DOLLARS 0.6 BILLION, (3) DISBURSEMENT OF LOANS FROM INTERNATIONAL ORGANIZATIONS,

SUPPLIERS' CREDITS, AND BANK CREDITS ALREADY CONTRACTED, OF U.S. DOLLARS 0.4 BILLION, (4) REFINANCING OF PRINCIPAL REPAYMENTS ON MEDIUM-TERM DEBT DUE FOREIGN BANKS AFTER JANUARY 31, 1983 OF U.S. DOLLARS 1.1 BILLION, (5) REFINANCING OF SHORT-TERM WORKING CAPITAL CREDITS FROM FOREIGN BANKS OUTSTANDING ON JANUARY 31, 1983 OF U.S. DOLLARS 1.3 BILLION, AND (6) RESTORATION OF SHORT-TERM TRADE RELATED LINES FROM FOREIGN BANKS OF U.S. DOLLARS 0.2 BILLION AFTER JANUARY 31, 1983. THIS LEAVES A NET TOTAL AMOUNT OF U.S. DOLLARS 1.3 BILLION TO BE FINANCED FROM ADDITIONAL BANK LOANS.

8. IT IS IMPORTANT TO REITERATE THAT THE PERFORMANCE BY CHILE DESCRIBED ABOVE IS CRITICALLY CONTINGENT ON THE EFFECTIVE DISBURSEMENTS OF FUNDS BY THE FOREIGN BANKS CONTEMPLATED IN THE PROGRAM FOR THE FIRST NINE MONTHS OF 1983. EVIDENCE THAT THE MEASURES ARE TAKING EFFECT IS REFLECTED BY THE FACT THAT NET DOMESTIC ASSETS WERE BELOW THE CEILING AND NET INTERNATIONAL RESERVES WERE ABOVE THE

TARGET SET IN THE "SHADOW PROGRAM" FOR MARCH 31, 1983. ALSO, THE FISCAL DEFICIT DURING THE FIRST QUARTER WAS CONSIDERABLY LESS THAN THAT CONTEMPLATED IN THE ORIGINAL PROGRAM. WITH THIS EVIDENCE AND THE ASSURED BANK DISBURSEMENTS, WE BELIEVE THAT THE ORIGINAL OBJECTIVES OF THE STAND-BY PROGRAM ARE STILL WITHIN REACH.

9. THE COMMITMENTS BY CHILE'S CREDITOR BANKS REQUIRED TO ENSURE COMPLIANCE WITH THE FINANCIAL PLAN ARE AS FOLLOWS: (1) THE BANKS SHOULD COMMIT THEMSELVES TO MAINTAIN THE LEVEL OF SHORT-TERM TRADE RELATED CREDIT OUTSTANDING TO CHILE AS OF JANUARY 31, 1983 AND TO REFINANCE OR RESCHEDULE THE REPAYMENT OF SHORT-TERM FINANCIAL DEBT AND MEDIUM AND LONG-TERM DEBT TO BANKS ON OR AFTER JANUARY 31, 1983, THROUGH DECEMBER 31, 1984; (2) CHILE SHOULD OBTAIN, IN THE PERIOD UP TO JUNE 30, 1983, BRIDGE FINANCING AMOUNTING TO U.S. DOLLARS 400 MILLION TO 500 MILLION TO HELP BOLSTER CHILE'S FOREIGN EXCHANGE RESERVES. THE BANKS SHOULD PROVIDE FUND MANAGEMENT WITH A WRITTEN COMMITMENT

THAT FUNDING EQUIVALENT TO U.S. DOLLARS 1.3 BILLION WILL BE MADE AVAILABLE TO CHILE DURING THE REMAINDER OF 1983. THESE RESOURCES WILL BE USED IN PART TO REPLACE THE BRIDGE FINANCING, AND (3) IMMEDIATELY UPON APPROVAL BY THE FUND'S EXECUTIVE BOARD OF A WAIVER AND PURCHASE BY CHILE OF ITS OUTSTANDING CUMULATIVE ENTITLEMENT UNDER THE STAND-BY ARRANGEMENT (SDR 54 MILLION BY END-JULY 1983), THE BANKS WILL DISBURSE U.S. DOLLARS 500 MILLION IN MEDIUM-TERM FINANCING. ADDITIONAL MEDIUM-TERM BANK FINANCING OF U.S. DOLLARS 570 MILLION WILL BE PROVIDED PRIOR TO SEPTEMBER 30, 1983, AND A FURTHER U.S. DOLLARS 230 MILLION PRIOR TO DECEMBER 31, 1983, TO BRING THE STAND-BY PROGRAM BACK ON ITS ORIGINAL TRACK NOT LATER THAN BY THE END OF THE THIRD QUARTER OF 1983 AND TO KEEP IT ON THAT TRACK SUBSEQUENTLY.

10. I WISH TO RE-EMPHASIZE THE IMPORTANCE OF ARRANGING THIS FINANCING FOR CHILE TO BE ABLE TO RETURN TO THE PROGRAM IT HAD AGREED WITH THE FUND. ACCORDINGLY, I WILL NEED TO RECEIVE BY JUNE 15, 1983, WRITTEN ASSURANCES FROM

THE BANKS AS DESCRIBED IN PARAGRAPH 9, TO BE IN A POSITION TO PRESENT TO THE EXECUTIVE BOARD A REQUEST FOR A WAIVER FROM COMPLIANCE WITH THE ORIGINAL PROGRAM'S QUANTITATIVE PERFORMANCE CRITERIA FOR JUNE 30, 1983.

DE LAROSIERE

MANAGING DIRECTOR

INTERFUND

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Larosière

Office Memorandum

TO : Mr. Whittome

FROM : L. G. Manison LGM

SUBJECT : Yugoslavia

DATE: May 20, 1983

1. Contacts with bankers

Ms. Margaret Mudd of Manufacturers Hanover called yesterday to say that the ICC on commercial bank support for Yugoslavia would like the Managing Director to send a letter to Yugoslavia's banks creditors aimed at helping persuade commercial banks to contribute to the proposed $600 million loan to Yugoslavia. A recent letter had been sent by the Managing Director to Chile's bank creditors with a similar objective. I told Ms. Mudd that I would refer the matter to you early next week, but that in the meantime I would try my hand at drafting such a letter. She said that if the Fund approved sending this communication a first draft should be discussed (perhaps over the telephone) with the ICC by Tuesday morning of next week. The letter could be finalized in the week thereafter and communicated to creditors via the ICC around May 30. The ICC would be meeting in London on Tuesday and Wednesday of next week with no Yugoslav or Fund representatives invited.

At a meeting last week of the ICC in New York, Brainard of Bankers Trust and Chairman of the ICC economic subcommittee gave a presentation on the content of intergovernmental financial support package to Yugoslavia on the basis of the information that had been sent to the ICC by the Chairman of the Berne Group. As indicated in the memorandum of Mrs. Junz of May 16, 1983, Brainard's assessment was that the cash flow contribution of the intergovernmental package in 1983 was greater than he earlier expected but that the maturities relating to this assistance were shorter than previously foreseen. Some American banks responded to this assessment by considering that there was a reduced need for the provision of new bank money in 1983. Clark of Citibank seemed to be floating a trial balloon that the "$2 billion" bank package should comprise $400 million of new money and $1,600 million refinancing, with the latter amount boosted to cover $200 million of "leakages." I stated that the external financing constraints on Yugoslavia were now more severe than earlier envisaged and that any slippage in the amount and timing of the bank's contribution to the financing package would be most unfortunate. On the other hand Bexon of Société Générale in conversation with Mr. Mentré earlier this week had expressed disappointment in the quality of the intergovernmental package as presented by Brainard to the ICC.

Brainard called me on May 17, 1983 to briefly talk about the intergovernmental package, especially the quality of the export credits being offered to Yugoslavia by the Berne Governments. Brainard's preliminary assessment that was conveyed to the ICC meeting was that around $650 million of export credits was usable in 1983. I said that insofar as Yugoslavia did not wish to import capital goods and that bilateral negotiations with a number of governments, particularly the French and the Swiss were far from being finalized, that his assessment of usable export credits for 1983 was on the high side. After some discussion he agreed that his assessment had been too generous. My personal view is that no more than $500 million of export credits offered under the Berne package is usable in 1983.

2. BIS loan

Mr. Mentré telephoned me yesterday to say that Bexon of Société Générale had informed him that the French banks had waived their negative gold pledge on loans to Yugoslavia. They had communicated this waiver to the BIS in the form desired. He thought that the staff should contact Florjancic early next week to find out what the status was with respect to the waiver of the negative gold pledge being sought from the Kuwaiti bank syndicate. In this endeavour he was of the view that the staff could also elicit the help of the Middle Eastern Department.

cc: Mrs. Junz
Mr. Mentré
Ms. Ripley
Mr. Hansen
Mr. Lewis

cc: Fu Yug
files

Office Memorandum

TO : Mr. L.A. Whittome

DATE: May 20, 1983

FROM : L.G. Manison LGM

SUBJECT : Yugoslavia-Intergovernmental Financial Support Package

Please find attached tables which attempt to summarize the information provided by the chairman of the Berne group to the ICC.

It is noteworthy that the French state that their agreements with the Yugoslav authorities provide that repayments of guaranteed medium and long-term loans in 1983 should not be rolled over or refinanced. The German stated also that maturities of direct credits from the Federal Government and of export credits guaranteed by the Federal Government in 1983 will not be rolled over. I am still of the view that disbursements from Berne package and not double counting those from the contribution of banks will be no more than $650 million in 1983, of which some $500 million could flow from the utilisation of export credits.

Attachment

cc: Mrs. Junz
Mr. Mentre
Ms. Ripley
Mr. Hansen
Mr. Lewis
Mr. Petersen

Table 1: Pledged Intergovernmental Financial Assistance to Yugoslavia Arising From Berne Meetings

(In millions of U.S. dollars)

New credits from governments or governmental agencies, including new guarantees or insurance

	Untied financial credits	Tied financial credits	Export credits: Consumer and intermediate goods	Export credits: Capital goods	Total
Austria		42 1/	60		102
Belgium		13 1/	12		25
Canada			20 2/	20 2/	40
Denmark				15	15
Finland				10	10
France		14 3/	128		142
Germany		52 1/	168		220
Italy		30	65		95
Japan			17.5 2/	17.5 2/	35
Netherlands	24		12.5 2/	12.5 2/	49
Norway					n.a. 4/
Sweden			10 2/	10 2/	20
Switzerland	40	17.5	22.5		80
U.K.	57		30 5/	16	103
U.S.A.		37 6/	235		272
Total	121	205.5	780.5	101	1,208

Source: Data sent by the Chairman of the Berne Group to the ICC on May 6, 1983.

1/ Constitute rollovers of guarantees or insurance on maturing bank debts in 1983.
2/ Where pledged export credits have not been divided between the two goods categories, they have been split arbitrarily on a 1:1 basis.
3/ Tied to downpayments on export credits for French exports.
4/ On January 18-19, 1983 Norway pledged $25 million to Yugoslavia.
5/ ECGD guaranteed credits up to a total of £20 million outstanding at any one time are available on a revolving basis.
6/ Extension of guarantees by CCC of certain maturities due Eximbank in 1983.

Table 2: Yugoslavia: Selected Repayments Data for 1983

(In millions of U.S. dollars)

	Direct government and governmental agencies credits	Guaranteed or insured credits: Short-term	Guaranteed or insured credits: Medium-term and long-term	Total	Repayments to be rolled over or re-financed by government or government agencies, including rollover or renewal of guarantees of insurance
Austria		295	36	331	42
Belgium			14 1/	14	14
Canada	10		2	12	--
Denmark		1	11	12	--
Finland	1			1	--
France			109	109	--
Germany	6		31	37	37
Italy	40		45	85	40
Japan				n.a.	--
Netherlands	--	--	30	30	--
Norway				n.a.	n.a.
Sweden	--	--	13	13	--
Switzerland	--	--	29	29	--
U.K.	--	30	60	90	90
U.S.A.	82		67	149	149
Total	139	326	447	912	472

Source: Communication of Chairman of Berne Group to ICC on May 6, 1983.

1/ Includes interest repayments.

Table 3: Reported Export Credits Offered to Yugoslavia in 1983 Outside the Berne Package

(In millions of U.S. dollars)

France	26
Germany	82
Japan	25
U.S.A.	95
Total	228

Source: Communication of Chairman of Berne Group to the ICC on May 6, 1983.

Office Memorandum

May 20, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia--Financial Package

I had some further conversations with Dobrich, Chemical Bank, and Morgan. These conversations confirmed, as had become clear earlier, that the apparent problems with some of the American banks mainly reflect the need of their representatives to show a strong negotiating stance vis-a-vis their management committees.

Jack Clarke who stopped-by on Wednesday, continued not to be very helpful, but his operating man, upon return from Warsaw, was much more reasonable. Mr. Whittome called to say that he had spoken with Dennis Wetherstone of Morgan and Tony Solomon, both of whom were very helpful. Dennis reaffirmed that Morgan would be supportive and also had talked with Bank of America and gotten a similar response from them. Tony Solomon was willing to contact Citibank upon return to New York at an appropriate level, it having been agreed that Wriston would not be the right person for this purpose.

I also spoke with Gabe Eichler, the Bank of America man in Frankfurt, who is their ICC member. He gave his personal, now very familiar view, that the Yugoslavs should be kept on a short string with regard to the provision of new liquidity, although he very much supports the longer maturity option. I believe, like the others, he is trying to get to his management with the most saleable package possible, but will go along in the end. I made the point, forcefully, that slippage beyond June 27, would mean extension of the stand-still and would continue to allow the Yugoslavs the feel a minimum of constraint, particular with the change in the seasonals. Finally, Sam Cross called to say that his final talks with Citibank were more positive than earlier (reflecting the return of Cliff Evans, I assume). His contact was Jack Clarke.

Helen B. Junz

cc: Mr. Whittome
Mr. Manison
CED

SPECIAL DELIVERY CABLE

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FOR MANISON ~~EUROPEAN DEPT.~~
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AMENDED TEXT OK EXCEPT IN SO FAR AS IT SUGGESTS THAT SPENDING WAS MAINTAINED BY RUNNING DOWN FOREIGN EXCHANGE ACCOUNTS IN FACT DINAR SAVINAXXXX SAVINGS WERE RUN DOWN AS FE ACCOUNTS ROSE IN DINAR VALUE.

REGARDS WHITTOME
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REPLY VIA ITT

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TIME: 02:39 05/19/83 EDT
CONNECT TIME : 121 SECONDS

cc: CED

INTERNATIONAL MONETARY FUND MAY 20 1983

May 19, 1983

TO : THE MANAGING DIRECTOR

FROM: WILLIAM B. DALE

SUBJECT: Yugoslavia: Briefing for Mid-1983 Review under Stand-by

As before, the ~~Yugoslav~~ program requires virtually constant attention. Seemingly most everything ~~that~~ can go wrong, does. I find the brief sound, and recommend approval.

Office Memorandum

MAY 19 1983

To: The Managing Director
The Deputy Managing Director

May 19, 1983

From: P. de Fontenay

Subject: Yugoslavia - Review Under Stand-by

Please find attached for your approval a draft briefing paper for the mid-1983 review under the stand-by arrangement with Yugoslavia. It has been cleared with Mr. Hood (RES), Mr. Mookerjee (ETR), Mr. Wittich (TRE), and Mr. Holder (LEG).

The paper should be returned to the European Department.

Attachment

cc: Mr. Carter

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Briefing Paper--Midyear Review Under the Stand-by Arrangement

Prepared by European Department and the
Exchange and Trade Relations Department

ff for LAW

Approved by L. A. Whittome and Subimal Mookerjee SM

May 19, 1983

I. Introduction

A staff mission comprising Mr. Mentre, Ms. Ripley, Mr. Hansen, Mr. Manison, Mr. Lewis (all EUR), Mr. Petersen (ETR), and Miss Pike as secretary (EUR) will visit Belgrade from May 30 to June 17, 1983 to conduct the midyear review specified under the stand-by arrangement and to reach agreement on the performance criteria to be observed during the second half year. The mission will also collect data and information relevant to a possible purchase under the compensatory financing facility. Mr. Whittome will join the mission for a time covering the period when the Managing Director will be in Belgrade. The Board discussion of the midyear review has tentatively been set for July 25, 1983 and the third purchase in 1983 is scheduled for August 15.

On January 30, 1981 the Fund approved a three-year stand-by arrangement with Yugoslavia for an amount equivalent to SDR 1,662 million or 400 per cent of quota. Yugoslavia to date has made ten purchases totaling SDR 1,433 million under this arrangement, the last of which took place on May 16, 1983. Fund holdings of dinars on May 16, 1983 amounted to 550.9 per cent of quota. Yugoslavia's use of Fund resources is summarized in Attachment I.

II. Background

Agreement was reached with the Yugoslav authorities at the end of December 1982 on objectives and policies to be pursued during the third year of the stand-by arrangement. This program was discussed by the Executive Board on March 11, 1983. It called for a close monitoring of the domestic and external economic situation of Yugoslavia through quarterly staff visits, and the reaching of policy understandings at the time of the midyear review. Quantitative performance criteria for net domestic assets of the banking system for the second half of 1983 were to be set also at the time of the midterm review.

The external situation of Yugoslavia has been complicated by the need to coordinate financial support from many sources, and the May purchase was made contingent on the finding that adequate progress toward the putting in place of the financing package had been made. A brief paper has been circulated to the Board (EBS/83/88, 5/4/83) summarizing economic develoments in Yugoslavia to date; stating that the specific performance criteria that were agreed in the program had been satisfied (though a waiver for a recently introduced multiple currency practice was sought); and assessing that the progress in putting together the financial package was satisfactory although there were some reservations. More detailed information on the economic setting and the potential dangers was given in the back-to-office report dated April 21, 1983 following the quarterly staff visit.

To summarize the position: domestic demand appears to have been declining somewhat less than anticipated by the Fund at the time that the program was formulated, although there is some evidence that the growth of nominal personal incomes has been restrained. Industrial production was unchanged in the first quarter against an annual decline of 2 per cent projected in the Fund program. Inflation has picked up, and the cost of living is rising faster than can be explained by the depreciation of the dinar and the increase in administered prices, despite what would on the surface appear to be restrictive financial policies. Retail prices increased by 35.7 per cent over the 12 months to April 1983 against an increase during 1983 projected by the staff of 30 per cent.

The current account deficit in the first quarter of 1983 was much lower than expected (US$291 million compared with US$612 million in the same period of 1982), but this is partly the result of transitory factors, some of which may have adverse consequences for exports and tourism during the remainder of the year. But the area that has the greatest scope for slippage lies outside the control of the Yugoslav authorities, namely, disbursements associated with the financial support package. The Berne package is of poor quality and a considerable deal of effort has not changed this fact. The Yugoslav authorities estimated that, of the total of US$1.35 billion, perhaps only US$1 billion is usable, since their demand for investment goods has been sharply curtailed, but they are optimistic that all of this US$1 billion can be disbursed in 1983. The staff doubts that as much as US$1 billion is usable, and it is unlikely that more than some US$650 million can be disbursed in 1983. The BIS bridging operation is not yet complete; US$300 million was made available on April 22, but of this US$50 million has to be repaid by mid-May. The disbursement of the remaining US$200 million still awaits a waiver by all banks of a negative pledge clause covering gold.

The commercial banks have made substantial progress, but disbursements of new money will not be forthcoming, at least until July, and may in addition need to cover larger-than-expected amortization payments.

The present staff forecast, on the current stance of policies, is for a worsening of the current account deficit from the originally projected deficit of US$500 million to perhaps US$800 million, and a shortfall in the financial package of some US$3/4 billion. Thus, the envisaged buildup in reserves will not be realized. There is in practical terms little chance of more financial assistance in 1983 and therefore the need for further adjustment efforts is all the more urgent.

III. The Stance of Policies and Prospective Policy Discussions

A further tightening of financial policies is essential if the Yugoslav authorities are to successfully cope with the effects of the severe external constraints now foreseen for 1983. Such policies are also indispensable to foster the confidence of the international financial community in Yugoslavia's adjustment efforts that will permit the putting together of a support package which must be anticipated for 1984.

The performance criterion for net domestic assets was met in the first quarter, but monetary policy was not as restrictive as intended due to certain factors causing a higher-than-expected increase in the income velocity of circulation of money. These included the continued very rapid expansion of interenterprise credits, and a weakening of the effects of the rise in nominal interest rates that had been negotiated at the turn of the year owing to the higher-than-expected rate of inflation. The greater-than-previously foreseen increase in the dinar value of domestic foreign exchange deposits arising from the depreciation of the dinar seems to have also helped in maintaining domestic purchasing power. This in turn appears to have resulted in a running down of dinar savings accounts to finance domestic spending. The mission will explore with the authorities how best to determine the NDA limits for the second half of 1983, giving particular consideration to adjustments for prospective exchange rate changes, so as to better control the growth of liquidity in the economy. It will seek ways especially to offset the effects on domestic spending of increases in the dinar value of foreign exchange deposits. The mission will press for the rapid implementation of legislation now pending to enhance financial discipline and control the growth of inter-enterprise credits and other devices which undermine the effectiveness of monetary policy; at the same time it will require that an effective system be set up to monitor the growth of these credits. If for any reason there are delays that prevent this legislation from coming into effect before August 1983, the mission will insist that other measures be taken to limit the increase in such credits. The mission will also ensure that the liquidity withdrawn from the economy in the form of excess public sector revenues is placed in blocked accounts at the National Bank so that it is fully sterilized, and not returned to the economy through other forms of credit. Once an assumption about the velocity of circulation of money has been worked out taking into account the likely developments in interenterprise credits and in the dinar value of foreign exchange deposits, and on the basis of an agreement on interest rate policy (discussed below), the mission will agree on ceilings for NDA growth for the second half of 1983 that are more constraining than those set for the first half year and are consistent with a sharp deceleration in the annual growth rate of M1 from the 25 per cent rate that occurred in 1982 and the first two months of 1983.

In the draft letter on development policy that is being negotiated with the World Bank, a minimum lending rate of 18 per cent is being proposed for 1984, with provisions for some further increase if the rate of inflation exceeds 20 per cent. The mission will insist that the introduction of the minimum lending rate proposed by the Bank be brought forward to end-July 1983 as well as the schedule for achieving a positive real minimum lending rate in the future, and to ensure that access of prime borrowers to funds at lower costs is negligible (the Bank proposals foresee a number of significant exceptions). In addition, because the initial agreement with the Fund for 1983 was based on the assumption of a 20 per cent increase in prices, interest rates were set accordingly. Given that the rate of inflation has been running recently at a rate which exceeds this assumption by more than 10 percentage points, a substantial increase by at least 10 percentage points is therefore required for all interest rates, including deposit rates, to be effective before end-July 1983.

On the fiscal side, it had earlier been thought that government expenditures could only be held down by constraining the growth of government revenues, even if this required tax cuts, given that, by law, the budgets at the different levels of Government had to be in balance. New legislation adopted by the Yugoslav authorities at the end of March, requiring the blocking of some excess revenues, if only for a short period, gives an opening to press for a fiscal policy better adapted to the requirements of demand restraint. The mission will insist that revenues in excess of the prescribed limits not be redistributed to the economy through reduced taxes and contribution rates, but be frozen on a monthly basis for a period of at least two years. Further, this new law specifies strict limits on the growth of only a subset of government revenues: the revenues of the Federal Government are excluded from this subset, as are revenues designated for payments with the characteristics of personal income payments (e.g., pensions). It is essential to subject the growth of these revenues to the same restraint, and it might be conceivable to increase to a limited extent the permissible rates of revenue growth in order to achieve full coverage and long-term blocking. If additional demand restraint is deemed necessary, a National loan bearing an adequate rate of interest and not reimbursable for a period of years should be introduced before the end of September or earlier if practicable.

In December it was agreed that the prices for a number of important commodities should be raised to bring domestic prices more in line with world prices and to further the objectives of the Yugoslav authorities to bring about the desired harmonization by end-1985. It was also agreed that "new distortions" were not to be allowed to emerge. There is some hesitancy on the part of the authorities to increase again the administered prices because of the accelerating rate of inflation, but inflation has eroded substantially the shift in relative prices that was being sought. The mission will insist that the relative price structure agreed in December must be re-established, especially as regards energy prices.

Particular emphasis will be placed on passing through without undue delays the effect of depreciations on dinar prices of imported goods, and notably petroleum products. The timetable for the new increases in administered prices (in the framework of a liberalization of the price system aiming at a better allocation of resources) proposed by the mission will also be consistent with the projected nominal income growth and expected real income decline.

The mission will investigate the extent to which the growth of nominal personal incomes have decelerated. Very preliminary data for the initial months of 1983 suggest that incomes policy objectives are being achieved. However, if there is any perceived slippage in the growth of personal incomes, especially in response to the recent acceleration in inflation, then the mission will insist on the establishment of a maximum rate of increase for nominal personal income per employee for the remainder of 1983.

It is difficult to judge the adequacy of the exchange rate adjustment that was negotiated in December both because exchange rate effects necessarily take time to come through, and also because of changes in the foreign exchange law that have altered--and probably adversely affected--export incentives. The mission will make it a condition that the foreign exchange law be implemented in a way which minimizes adverse effects on export incentives and will insist on a strengthening of the role of the unified exchange market. The compartmentalization of the foreign exchange market makes it highly inefficient, and a more integrated market would provide a more rational allocation of foreign exchange.

There is also a need to review the procedures that the Yugoslav authorities have set up to allocate financial credits and suppliers' credits to be provided under the financial support package, particularly taking account of how potential exporters will obtain foreign exchange for essential imports.

As far as exchange rate developments in the second half of the year are concerned, it was agreed at the beginning of the year that there will be a monthly depreciation of the dinar by 2 per cent in real terms during the first six months and by 0.5 per cent during the last six months, with this last figure to be reviewed in the light of export developments. The 2 per cent monthly depreciation in real terms was implemented as agreed until now: it has led to a nominal depreciation from end-1982 to end-March 1983 of 17.9 per cent in terms of the Yugoslav currency basket and of 16.2 per cent in terms of a trade-weighted basket. The mission will explore the need for further exchange rate action, and will take the preliminary view that the same 2 per cent monthly depreciation in real terms be continued until the end of the year. An acceptable alternative would be a step devaluation followed by stabilization of the effective rate in real terms.

The mission will also discuss the appropriateness of the Yugoslav currency basket which is used to calculate the rate of depreciation. Due to the large weight of the U.S. dollar, this index has in recent years consistently shown larger rates of depreciation than a trade-weighted index calculated by the European Department.

The mission will construct with the Yugoslav authorities for 1983 and 1984 quarterly balance of payments projections for the convertible and nonconvertible area covering all sources and uses of funds: it will in particular stress the likely developments of trade relations with the nonconvertible currency area, the energy situation, and their impact on the convertible currency trade balance.

In preparation for discussions on the financing requirements for 1984 and 1985 and on alternative means to cover them, the mission will encourage the authorities to now start compiling the data base on external debt falling due in 1984/85 that will facilitate this process. They will also obtain data through to 1989 that will enable the preparation of medium-term external debt projections and will review current debt management policies.

we could offer them technical assistance (JB)

The mission will check that the understandings which have been reached in April 1983 with the Yugoslav authorities on the timely transmission of the necessary data are being followed.

The mission will inquire of the authorities what legislative or administrative steps need to be taken for Yugoslavia to consent to the increase in quota under the Eighth Review and to make appropriate financial provision for payment of the increased quota subscription; and will seek details of the timetable the authorities have in mind for completing the necessary steps that would help to bring the increase in their quotas into effect by November 30, 1983.

ATTACHMENT I

Yugoslavia: Fund Position

(As of May 16, 1983)

Quota:	SDR 415.5 million	
Fund holdings of Yugoslav dinars:	SDR 2,289.1 million, or 550.9 per cent of quota, of which:	
	CFF	SDR 207.75 million, or 50.0 per cent of quota
	SFF	SDR 1,253.7 million, or 301.7 per cent of quota
SDR holdings:	SDR 0.08 million; (0.1 per cent of net cumlative allocation of SDR 155.2 million)	
Direct distribution of profits from gold sales:	US$32.9 million	
Gold distribution:	177,144 fine ounces	

Yugoslavia: Selected Economic and Financial Indicators

	1980	1981		1982		1983		
	Actual	Program	Actual	Program	Actual	Plan	Staff Forecast	Jan.-Mar.
	(Annual per cent changes, unless otherwise indicated)							
National income, prices and costs								
GSP at constant prices	2	2	1 1/2	2 1/2	1	1	-2 1/2	...
Industrial production	4	3	4	3 1/2	--	2	-2	--
Nominal aggregate wages	24 1/2	...	37 1/2	22	31	...	30	25
Real wages in socialized sector	-8 1/2	1 1/2	-5	--	-3	-7	-4	-8
Retail prices (growth during year)	39	20	39	15	31	20	30	32
Exchange rate (end of period)								
Dinars per U.S. dollar	29.3		41.8		62.5			77.4
Effective rate index of the dinar								
Nominal	130	1/	100	1/	69.5	...		57.0
Real	102	1/	100	1/	85.4	....	65.3	72.9
Balance of payments (convertible currency area)								
Export volume	2 1/2	7	2	12	-2 1/2	20	8	...
Import volume	-14 1/2	-3	-5	1	-11	-10	-9	...
Terms of trade (deterioration)	-1	-5	-5	--	2	--	--	...
External reserves of National Bank; in billions of dollars at end of period	1.5		1.7	--	0.9	1.4	1.5	0.8
Public sector								
Public sector revenue	25	2/	36	2/	26	15	16	25
Public sector expenditure	27 1/2	2/	31	2/	26	15	16	...
Money and credit								
Domestic credit 3/	28.0	22.6	22.9	16.7	17.0	11.7	11.7	...
Money (M1)	23.0	22.0	26.6	16.9	26.6	12.0	12.0	25.0 4/
	(In per cent of GSP)							
Federal Government deficit	1.3	-0.1	0.1	-0.1	-0.1	--	--	--
Money (M1); end of period	30	30	26	26	26	23	23	...
External current account balance	34	-2 1/2	-1 1/2	-1	-2 1/2	2 1/2	-1	...
	(Other ratios)							
External debt service ratio in convertible currencies (in per cent of exports of goods and non-factor services)	16	19	25	23	25	27	34	...
Interest payments in convertible currencies (in per cent of exports of goods and non-factor services)	5	7	14	12	14	12	13	...
Gross official reserves (weeks of total merchandise imports)	5	6	6	5	4	4	5	4

Sources: National Bank of Yugoslavia; and staff estimates.

1/ The nominal effective exchange rate was to be adjusted in line with the differential between developments in Yugoslav prices and costs and those in trade partner countries.
2/ Programmed to rise at a lower rate than nominal GSP, the latter being programmed to rise by 23 per cent in 1981 and 1982.
3/ Domestic credit outstanding of banking system for the years 1980 to 1982 and net domestic assets of the banking system for 1983.
4/ Based on preliminary estimates.

Table 1: Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

			Current Program Year 1/ (Per cent of quota)						(Per cent of GDP)					
						Overall Balance			Current Account Deficit 4/			Overall Budget Deficit 4/		
Country	Date of Approval 2/	Type of Arrangement	Amount of Arrangement	Fund Credit Outstanding at Beginning Current Program Year 3/	Proposed Purchases During Current Program Year	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target	Previous Year	Original Target	Current Target
Yugoslavia	1/81	SB	400	323	133	-343	...	45	2.5	...	1.0	-0.1	...	--
Comparator Countries														
Hungary	12/82	SB	127	--	127	-300	...	33	0.7	...	-2.7	1.7	...	1.2
Mexico	12/82	EFF	450	--	150	-635	...	231	1.6	2.2	1.0	18.0	...	8.5
Pakistan	11/80	EFF	297	186	67	-114	-67	-55	5.0	4.8	4.5	5.5	3.8	5.4
Romania	3/83	SB	300	125	100	196	75	-1	-2.1	2.3	-1.4	--	--	--
Turkey	6/80	SB	417	443	63	-15	...	-40	2.0	...	1.8	1.7	...	1.3
Turkey	Proposed (3/83)	SB	75	492	75	-15	...	-40	2.0	...	1.8	1.7	...	1.3

Sources: Board papers; and staff estimates.

1/ Current program year refers to the year for which the program is to be negotiated, or the program currently in operation. Original targets refer to targets established in original multiyear arrangement. At the beginning of an arrangement current target refers to original target. When targets have been specified under a program to be canceled and a new program is under consideration, original targets refer to the old program.

2/ Date of approval of current arrangement. If followed by (*), current annual program under negotiation.

3/ Fund credit outstanding, excluding CFF, cereal, oil, and buffer stock facilities, as a per cent of quota prior to beginning of current program year.

4/ Net of official transfers. Values may not coincide with those in staff papers, due to different definition used for intercountry comparison.

Table 1 (Concluded): Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

Country	Date of Approval 2/	Type of Arrange-ment	Current Program Year 1/ (Per cent per year) Real GDP Growth: Pre-vious Year	Real GDP Growth: Ori-ginal Tar-get	Real GDP Growth: Cur-rent Tar-get	Inflation: Pre-vious Year	Inflation: Ori-ginal Tar-get	Inflation: Cur-rent Tar-get	(Per cent of M2) Domestic Credit Expansion 3/: Pre-vious Year	Domestic Credit Expansion 3/: Ori-ginal Tar-get	Domestic Credit Expansion 3/: Cur-rent Tar-get	Actual Debt Service Ratio 4/	Actual Reserves/ Imports 5/
Yugoslavia	1/81	SB	1.0	...	-2.5	31.0	...	30.0	19.6	...	14.9	34	4
Comparator Countries													
Hungary	12/82	SB	1.9	...	--	7.0	...	9.0	9.5	...	10.5	35.7	15.6
Mexico	12/82	EFF	-0.2	...	--	98.8	...	55.0	75.2	...	59.4	42	6
Pakistan	11/80	EFF	6.2	5.8	6.7	9.6	10.0	8.0	16.1	15.8	15.8	25	8
Romania	3/83	SB	3.2	6.8	3.8	17.8	--	7.0	4.1	...	9.9	22.2	6
Turkey	6/80	SB	4.5	...	4.8	27.0	...	20.0	26.7	...	22.5	23	8
Turkey	Proposed(3/83)	SB	4.5	...	4.8	27.0	...	20.0	26.7	...	22.5	23	8

Sources: Board papers; and staff estimates.

1/ Current program year refers to the year for which the program is to be negotiated or the program currently in operation. Original targets refer to targets established in original multiyear arrangement. At the beginning of an arrangement current target refers to original target. When targets have been specified under a program to be canceled and a new program is under consideration, original targets refer to the old program.
2/ Date of approval of current arrangement. If followed by (*), current annual program under negotiation.
3/ Domestic credit or NDA expansion as per cent of broad money outstanding at beginning of period, unless otherwise specified in the program.
4/ Data for most recently available year. Debt service (contractual amounts, net of rescheduling and including Fund obligations) as a percentage of exports of goods and services.
5/ Data for most recently available year. Gross official reserves in weeks of imports.

Table 2: Comparison of Selected Economic and Financial Indicators in Recent Selected Programs

			Year Preceding Current Program Year 1/													
			(Per cent of quota)		(Per cent of GDP)						(Per cent per year)				(Per cent of M2)	
			Overall Balance		Current Account Deficit 3/			Overall Budget Deficit 3/			Real GDP Growth		Inflation		Domestic Credit Expansion 5/	
Country	Date of Approval 2/	Type of Arrangement	Target	Actual	Target	Actual	Deviation 4/	Target	Actual	Deviation 4/	Target	Actual	Target	Actual	Target	Actual
Yugoslavia	1/81	SB	-129	-343	0.8	2.5	1.5	0.1	0.1	--	2.5	1.0	15.0	31.0	19.7	20.3
Comparator Countries																
Pakistan	11/80	EFF	-53	-114	4.4	5.0	0.6	5.1	5.5	0.4	6.1	6.2	10.0	9.6	17.5	16.1
Romania	6/82	SB	215	196	0.6	-2.1	3.3	--	--	--	3.8	3.2	11.2	17.8	13.0	4.1
Turkey	6/80	SB	8	-15	2.5	2.0	-0.5	1.5	1.7	0.2	4.5	4.5	32.5	27.0	27.8	26.7

Sources: Board papers; and staff estimates.

1/ Year preceding current program refers to previous year within the arrangement under operation, or year prior to program under negotiation, when applicable. Targets for previous years are only defined when available under an arrangement (including canceled programs) and refer to most recently revised magnitudes.
2/ Date of approval of arrangement in operation during current program year.
3/ Net of official transfers. Values may not coincide with those in staff papers, due to different definitions used for inter-country comparison.
4/ Deviation of actual from original target as a percentage of original GDP target.
5/ Domestic credit or NDA expansion as per cent of broad money outstanding at beginning of period, unless otherwise specified in the program.

Office Memorandum

May 18, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia--Bank Package Saga Continues

I spoke with Mr. Dobrich last night and again this morning. He continues to point to Citibank as currently being the most urgent problem to solve. He told me that Harry Taylor had spoken to Citibank and apparently had run up against a wall. Therefore, Dobrich was looking for outside help. I told him that I would speak to the New York Fed about this matter. Accordingly, I spoke to Sam Cross this morning, who actually had been asked by Dobrich to intervene with Bank of America. Cross felt rather more inclined to be helpful in the case of Citibank since it was within the New York Fed's jurisdiction. We both attempted to isolate the basic problems behind Citibank behavior and came to the conclusion, that, once again, it had to be a matter of trying to set policy in the case of a Yugoslav restructuring, in particular, and other restructurings generally. Additionally, there has been the continual jealousy on the part of Citibank who had expected once Manufacturers Hanover was appointed international chairman of the ICC, to be appointed national chairman for the Yugoslav effort. The latter would have carried a considerable amount of fee sharing. In the event, no national agent was appointed and Manufacturers Hanover remains the sole agent. It also has become clear that Jack Clarke performs mainly an overall policy setting role, and that management looks to the specialist within the bank for advice in particular cases. As a result, Clarke has been overruled a number of times on Yugoslavia and Poland by management in favor of the specialist in his own group. Sam Cross suggested that I get in touch with Mr. Whittome in Brussels, since Tony Solomon is there as well and his help could be enlisted on the spot. In the meantime, Sam also would do his bit and he promised to call back today.

Spoke to H.S.
/MW

unbelievable.

Helen B. Junz

cc: Mr. Whittome
Mr. Manison
CED

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WASHINGTON, D. C. 20431

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~~Mr. Whittome~~

~~Hyatt Regency Hotel~~

~~Rue Royale 250~~

~~Brussels, Belgium~~

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Messrs. Mookerjee, in particular, and Hood suggested that section of Yugoslav briefing paper on setting of NDA limits for second half of 1983 required clarification and thus some redrafting. Mookerjee also thought that reducing M1 growth to implied rate of 20 per cent appeared insufficient. Accordingly, Mr. Hansen and I have redrafted the relevant paragraph. It has Mookerjee's blessing and reads as follows:

"The performance criterion for net domestic assets was met in the first quarter of 1983, but monetary policy was not as restrictive as intended due to certain factors causing a higher-than-expected increase in the income velocity of circulation of money. These included the continued very rapid expansion of interenterprise credits, and a weakening of the effects of the rise in nominal interest rates that had been negotiated at the turn of the year owing to the higher-than-expected rate of inflation. The greater-than-previously foreseen increase

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in the value of domestic foreign exchange deposits arising from the depreciation of the dinar seems to have also helped in maintaining domestic purchasing power. The mission will explore with the authorities how best to determine the NDA limits for the second half of 1983, giving particular consideration to adjustments for prospective exchange rate changes, so as to better control the growth of liquidity in the economy. It will seek ways especially to offset the effects on domestic spending of increases in the dinar value of foreign exchange deposits. The mission will press for the rapid implementation of legislation now pending to enhance financial discipline and control the growth of interenterprise credits and other devices which undermine the effectiveness of monetary policy; at the same time it will require that an effective system be set up to monitor the growth of these credits. If for any reason there are delays that prevent this legislation from coming

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into effect before August 1983, the mission will insist that other measures be taken to limit the increase in such credits. The mission will also ensure that the liquidity withdrawn from the economy in the form of excess public sector revenues is placed in blocked accounts at the National Bank so that it is fully sterilized, and not returned to the economy through other forms of credit. Once an assumption about the velocity of circulation of money has been worked out taking into account the likely developments in inter-enterprise credits and in the dinar value of foreign exchange deposits, and on the basis of an agreement on interest rate policy (discussed below), the mission will agree on ceilings for NDA growth for the second half of 1983 that are more constraining than those set for the first half year and are consistent with a sharp deceleration in the annual growth rate of M1 from the 25 per cent rate that occurred in 1982 and the first two months of 1983."

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Mookerjee also thought that required increases in interest rates of 10 percentage points should be dated in brief. I indicated that we were thinking that these changes should be effective by end-July 1983 and that this would be put in brief subject to your approval.

It would be our intention to send brief to Management tomorrow morning.

Regards

Manison

Interfund

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248331 IMF UR

INFUND 610712F

INTERFUND PARIS, MAY 17, 1983

INTERFUND
WASHINGTON DC

TO: BRIAN ROSE

CC: MANISON
LEWIS

SUBJECT: YUGOSLAVIA

ON THE BASIS OF A PHONE CALL FROM LJUBLJANA BY MR. LEWIS, I CALLED MRS. HOFMANN OF THE NATIONAL BANK OF YUGOSLAVIA. SHE CONFIRMED THAT DUE TO UNEXPECTED COMMITMENTS, MR. DRAGAN AND MR. FLORJANCIC WILL NOT BE AVAILABLE WEDNESDAY AND THURSDAY TO CONVEY TO ME THEIR REACTIONS TO THE LETTER DATED MAY 5, 1983 SENT BY MR. WHITTOME TO MR. FLORJANCIC. MR. FLORJANCIC INTENDED TO SEND INSTEAD A WRITTEN REPLY TO MR. WHITTOME.

I STRESSED THE NEED TO KNOW IN ADVANCE OF THE BEGINNING OF THE JUNE MISSION THE POSITION OF THE YUGOSLAV AUTHORITIES ON MAJOR POLICY ISSUES.) MRS. HOFMANN SAID THAT IT WAS THE VERY PURPOSE OF THE REPLY TO THE WHITTOME LETTER WHICH WAS ENVISAGED.

P.S. MR. WHITTOME CALLED FROM BRUSSELS AND I INFORMED HIM DIRECTLY.

REGARDS.

MENTRE

248331 IMF UR

INFUND 610712F
Time: 06:44 05/17/83 EDT
Connect Time : 182 seconds

cc. For Yug folley

Office Memorandum

May 16, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia Bank Package

Fulvio Dobrich called me today to report on some problems he had encountered regarding the progress of the commercial bank package. He had tried to contact Mentré in Yugoslavia, in Paris and, failing to do so, was calling me as a last resort. Larry Brainard's report to the ICC on the details of the government package for Yugoslavia had surfaced two problems:

1. Governments according to the commercial banks' assessment were actually providing US$285 million more liquidity in 1983 than indicated by the banks "burden-sharing formula". Accordingly, some American banks (he named Bank of America, Chase, Citi and Morgan) were arguing that the US$600 million of "new" money to be provided by the banks should be reduced by the government overage. On the other side, they found that governments were not able to stretch maturities on similar terms as those proposed by the banks, largely because their traditional term structure for such credits is two and a half to three years. Accordingly, these four banks were arguing that the commercial bank package should also offer maturities of two and a half to three years only. Dobrich asked me to ascertain whether Mr. de Larosière might be willing to make approaches to the top levels of these banks to bring them back to reason. He said that the European banks apparently were going along as originally planned. I suggested that we should wait before using our top leverage and see what could be done on other levels. Accordingly, he was going to go back to Brainard to see whether he was sticking with the assessment, and I promised to be in touch with the American banks he had named. We would consult again the next day.

Shortly thereafter Mr. Whittome called from Paris, where Dobrich had reached him, and Mr. Whittome apparently had come to the same conclusion with Dobrich. In the meantime, I also had a call from Chemical Bank asking me to intervene along the same lines. Accordingly, I called Jack Clarke at the Citibank, but he was unaware of what was happening. He called back later to say that his man (I assume he meant Cliff Evans) was in Warsaw and that he would track down the facts as soon as possible. I also spoke with Walter Baranetsky of Morgan, who assured me that they would put a reasonable report to Management. He confirmed the impression I already had that Morgan went along with the others only for internal tactical reasons and was quite ready to back off. The arguments I used were: (i) that the banks just could not have it both ways; they had asked us to get the governments to improve their package and we had insisted that any improvements were to be additional to what already had been pledged. Therefore, we could only see disaster for the government package, if banks now reduced their prior committments because the governments have been "too generous";

2. I said that we felt the banks could be sure the governments would be there with export cover even after the current extension of the maturities.

Finally, I expressed my fears that the package as a whole was minimal anyhow, and any real or supposed overage would be welcome. I also undertook to call the Frankfurt office of Bank of America which is responsible for participation in the ICC. Their man on Yugoslavia, however, was out of the office until May 20, and I hope he will return my call within the next day or so.

Mr. Clarke called back on May 17, saying that in the meantime he had heard that the IMF would be given a full report by Brainard and the Bank of America man on May 23, upon their return from Belgrade. He argued that the banks should offer less money than originally planned (less than US$600 million "new", I take it) and that, in any event, the U.S. banks should do less because the French banks were extending export credit only. I tried to explain the facts as I knew them, but he clearly was only partially informed and afraid to be caught on a limb. So we left matters to be sorted out after next Monday, which may be late for Dobrich.

Helen Junz

cc: Mr. Whittome
CED
Mr. Manison

Office Memorandum

May 16, 1983

To: Mr. Hood
Mr. Mookerjee
Mr. Wittich
Mr. Holder

From: L.A. Whittome

Subject: Yugoslavia - Briefing Paper

Please find attached a brief for the mid-year review with Yugoslavia. A certain number of tables have yet to be completed before it is sent to the Managing Director. I would appreciate receiving your comments by noon on the 18th so that it can be sent to the Managing Director on the 19th. Neither Mr. Mentré nor I will be in the office on the 17th or 18th so comments should be addressed to Mr. Manison or Mr. Hansen.

Att.

DRAFT
5/16/83:6

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Briefing Paper--Midyear Review Under the Stand-by Arrangement

Prepared by European Department and the
Exchange and Trade Relations Department

Approved by L. A. Whittome and Subimal Mookerjee

May , 1983

I. Introduction

A staff mission comprising Mr. Mentre, Ms. Ripley, Mr. Hansen, Mr. Manison, Mr. Lewis (all EUR), Mr. Petersen (ETR), and Miss Pike as secretary (EUR) will visit Belgrade from May 30 to June 17, 1983 to conduct the midyear review specified under the stand-by arrangement and to reach agreement on the performance criteria to be observed during the second half year. The mission will also collect data and information relevant to a possible purchase under the compensatory financing facility. Mr. Whittome will join the mission for a time covering the period when the Managing Director will be in Belgrade. The Board discussion of the midyear review has tentatively been set for July 25, 1983 and the third purchase in 1983 is scheduled for August 15.

On January 30, 1981 the Fund approved a three-year stand-by arrangement with Yugoslavia for an amount equivalent to SDR 1,662 million or 400 per cent of quota. Yugoslavia to date has made ten purchases totaling SDR 1,433 million under this arrangement, the last of which took place on May 16, 1983. Fund holdings of dinars on May 16, 1983 amounted to 550.9 per cent of quota. Yugoslavia's use of Fund resources is summarized in Attachment I.

II. Background

Agreement was reached with the Yugoslav authorities at the end of December 1982 on objectives and policies to be pursued during the third year of the stand-by arrangement. This program was discussed by the Executive Board on March 11, 1983. It called for a close monitoring of the domestic and external economic situation of Yugoslavia through quarterly staff visits, and the reaching of policy understandings at the time of the midyear review. Performance criteria for the second half of 1983 were to be set also at the time of the midterm review.

The external situation of Yugoslavia has been complicated by the need to coordinate financial support from many sources, and the May purchase was made contingent on the finding that adequate progress toward the putting in place of the financing package had been made. A brief paper has been circulated to the Board (EBS/83/88, 5/6/82) summarizing economic develoments in Yugoslavia to date; stating that the specific performance criteria that were agreed in the program had been satisfied (though a waiver for a recently introduced multiple currency practice was sought); and assessing that the progress in putting together the financial package was adequate, if not as satisfactory as had been hoped. More detailed information on the economic setting and the potential dangers was given in the back-to-office report dated April 25, 1983 following the quarterly staff visit.

To summarize the position: domestic demand appears to have been declining somewhat less than anticipated by the Fund at the time that the program was formulated, although there is some evidence that the growth of nominal personal incomes has been restrained. Industrial production was unchanged in the first quarter against an annual decline of 2 per cent projected in the Fund program. Inflation has picked up, and the cost of living is rising faster than can be explained by the depreciation of the dinar and the increase in administered prices, despite what would on the surface appear to be restrictive financial policies. Retail prices increased by 35.7 per cent over the 12 months to April 1983 against an increase during 1983 projected by the staff of 30 per cent.

The current account deficit in the first quarter of 1983 was much lower than expected (US$291 million compared with US$612 million in the same period of 1982), but this is partly the result of transitory factors, some of which may have adverse consequences for exports and tourism during the remainder of the year. But the area that has the greatest scope for slippage lies outside the control of the Yugoslav authorities, namely, disbursements associated with the financial support package. The Berne package is of poor quality and a considerable deal of effort has not changed this fact. The Yugoslav authorities estimated that, of the total of US$1.35 billion, perhaps only US$1 billion is usable, since their demand for investment goods has been sharply curtailed, but they are optimistic that all of this US$1 billion can be disbursed in 1983. The staff doubts that as much as US$1 billion is usable, and it is unlikely that more than some US$600 million can be disbursed in 1983. The BIS bridging operation is not yet complete; US$300 million was made available on April 22, but of this US$50 million has to be repaid by mid-May. The disbursement of the remaining US$200 million still awaits a waiver by all banks of a negative pledge clause covering gold.

The commercial banks have made substantial progress, but disbursements of new money will not be forthcoming, at least until July, and may in addition be needed to cover larger-than-expected amortization payments.

The present staff forecast, on the current stance of policies, is for a worsening of the current account deficit from the originally projected deficit of US$500 million to perhaps US$800 million, and a shortfall in the financial package of some US$3/4 billion. Thus, the envisaged buildup in reserves will not be realized. There is in practical terms little chance of more financial assistance in 1983 and therefore the need for further adjustment efforts is all the more urgent.

III. The Stance of Policies and Prospective Policy Discussions

A further tightening of financial policies is essential if the Yugoslav authorities are to successfully cope with the effects of the severe external constraints now foreseen for 1983. Such policies are also indispensable to foster the confidence of the international financial community in Yugoslavia's adjustment efforts that will permit the putting together of the support package which must be anticipated for 1984.

The performance criterion for net domestic assets was met in the first quarter, but monetary policy was not as restrictive as intended due to more leakages than had been expected in the form of the continued very rapid expansion of interenterprise credits, the enhancement of the dinar value of foreign currency deposits, and a weakening of the effects of the rise in nominal interest rates that had been negotiated on account of a higher-than-expected rate of inflation. The mission will agree with the authorities how best to formulate the NDA limits for the second half of 1983, taking particular account of adjustments for exchange rate changes to better control the growth of liquidity in the economy. It will seek ways especially to offset the effects on domestic spending of increases in the dinar value of foreign exchange deposits. The mission will press for the rapid implementation of legislation now pending to enhance financial discipline and control the growth of interenterprise credits and other devices which undermine the effectiveness of monetary policy; at the same time it will require that an effective system be set up to monitor the growth of these credits. If for any reason there are delays that prevent this legislation from coming into effect before August 1983, the mission will insist that other measures be taken to limit the increase in such credits. The mission will also ensure that the liquidity withdrawn from the economy in the form of excess revenues is placed in blocked accounts at the National Bank so that it is fully sterilized, and not returned to the economy through other forms of credits. Once the framework for monetary policy has been established and an assumption about velocity has been worked out on the basis of this framework and an agreement on interest rate policy reached (discussed below), the mission will agree on ceilings for NDA growth for the second half year that are more constraining than those set for the first half, and are compatible with a sharper improvement in the current account with the convertible currency area and with the revised targets for inflation and the real rate of growth. In addition, the mission, after taking into account likely developments in net foreign liabilities of the banking system, will assess the possibility and the merits of adopting as an objective a deceleration by at least 5 percentage ponts in the annual rate of growth of money (M_1) from about 25 per cent in 1982 and the first two months of 1983.

In the draft letter on development policy that is being negotiated with the World Bank, a minimum lending rate of 18 per cent is being proposed for 1984, with provisions for some further increase if the rate of inflation exceeds 20 per cent. The mission will insist that the introduction of the minimum lending rate proposed by the Bank be brought forward to end-July 1983 as well as the schedule for achieving a positive real minimum lending rate in the future, and to ensure that access of prime borrowers to funds at lower costs is negligible (the Bank proposals foresee a number of significant exceptions). In addition, because the initial agreement with the Fund for 1983 was based on the assumption of a 20 per cent increase in prices, interest rates were set accordingly. Given that the rate of inflation has been running recently at a rate which exceeds by more than 10 per cent this assumption, a substantial increase by at least 10 percentage points therefore is required for all interest rates, including deposit rates.

On the fiscal side, it had earlier been thought that government expenditures could only be held down by constraining the growth of government revenues, even if this required tax cuts, given that, by law, the budgets at the different levels of Government had to be in balance. New legislation adopted by the Yugoslav authorities at the end of March, requiring the blocking of some excess revenues, if only for a short period, gives an opening to press for a fiscal policy better adapted to the requirements of demand restraint. The mission will insist that revenues in excess of the prescribed limits not be redistributed to the economy through reduced taxes and contribution rates, but be frozen on a monthly basis for a period of at least two years. Further, this new law specifies strict limits on the growth of only a subset of government revenues: the revenues of the Federal Government are excluded from this subset, as are revenues designated for payments with the characteristics of personal income payments (e.g., pensions). It is essential to subject the growth of these revenues to the same restraint, and it might be conceivable to increase to a limited extent the permissible rates of revenue growth in order to achieve full coverage and long-term blocking. If additional demand restraint is deemed necessary, a solidarity loan bearing an adequate rate of interest and not reimbursable for a period of years should be introduced before the end of September or earlier if practicable.

In December it was agreed that the prices for a number of important commodities should be raised to bring domestic prices more in line with world prices and to further the objectives of the Yugoslav authorities to bring about the desired harmonization by 1986. It was also agreed that "new distortions" were not to be allowed to emerge. There is some hesitancy on the part of the authorities to increase again the administered prices because of the accelerating rate of inflation, but inflation has eroded substantially the shift in relative prices that was being sought. The mission will insist that the relative price structure agreed in December must be re-established, especially as regards energy prices. Particular emphasis will be placed on passing through without undue delays the effect of depreciations on dinar prices of imported goods, and notably petroleum products. The timetable for the new increases in administered prices (in the framework of a liberalization of the price system aiming at a better allocation of resources) proposed by the mission will also be consistent with the projected nominal income growth and expected real income decline.

The mission will investigate the extent to which the growth of nominal personal incomes have decelerated. Very preliminary data for the initial months of 1983 suggest that incomes policy objectives are being achieved. However, if there is any perceived slippage in the growth of personal incomes, especially in response to the recent acceleration in inflation, then the mission will insist on the establishment of a maximum rate of increase for nominal personal income per employee for the remainder of 1983.

It is difficult to judge the adequacy of the exchange rate adjustment that was negotiated in December both because exchange rate effects necessarily take time to come through, and also because of changes in the foreign exchange law that have altered--and probably adversely affected--export incentives. The mission will make it a condition that the foreign exchange law be implemented in a way which minimizes adverse effects on export incentives and will insist on a strengthening of the role of the unified exchange market. The compartmentalization of the foreign exchange market makes it highly inefficient, and a more integrated market would provide a more rational allocation of foreign exchange. There is also a need to review the procedures that the Yugoslav authorities have set up to allocate financial credits and suppliers' credits to be provided under the financial support package, particularly taking account of how potential exporters will obtain foreign exchange for essential imports.

As far as exchange rate developments in the second half of the year are concerned, it was agreed at the beginning of the year that there will be a monthly depreciation of the dinar by 2 per cent in real terms during the first six months and by 0.5 per cent during the last six months, with this last figure to be reviewed in the light of trade developments. The 2 per cent monthly depreciation in real terms was implemented as agreed until now: it has led to a nominal depreciation from end-1982 to end-March 1983 of 17.9 per cent in terms of the Yugoslav currency basket and of 16.2 per cent in terms of a trade-weighted basket. The mission will explore the need for further exchange rate action, and will take the preliminary view that the same 2 per cent monthly depreciation in real terms be continued until the end of the year. An acceptable alternative would be a step devaluation followed by stabilization of the effective rate in real terms.

The mission will also discuss the appropriateness of the Yugoslav currency basket which is used to calculate the rate of depreciation. Due to the large weight of the U.S. dollar, this index has in recent years consistently shown larger rates of depreciation than a trade-weighted index calculated by the European Department.

The mission will construct with the Yugoslav authorities for 1983 and 1984 quarterly balance of payments projections for the convertible and nonconvertible area covering all sources and uses of funds: it will in particular stress the likely developments of trade relations with the nonconvertible currency area, the energy situation, and their impact on the convertible currency trade balance.

In preparation for discussions on the financing requirements for 1984 and 1985 and on alternative means to cover them, the mission will encourage the authorities to now start compiling the data base on external debt falling due in 1984/85 that will facilitate this process.

The mission will check that the agreements which have been reached in April 1983 with the Yugoslav authorities on the timely transmission of the necessary data are being followed.

ATTACHMENT I

Yugoslavia: Fund Position

(As of May 16, 1983)

Quota:	SDR 415.5 million	
Fund holdings of Yugoslav dinars:	SDR 2,289.1 million, or 550.9 per cent of quota, of which:	
	CFF	SDR 207.75 million, or 50.0 per cent of quota
	SFF	SDR 1,253.7 million, or 301.7 per cent of quota
SDR holdings:	SDR 0.08 million; (0.1 per cent of net cumlative allocation of SDR 155.2 million)	
Direct distribution of profits from gold sales:	US$32.9 million	
Gold distribution:	177,144 fine ounces	

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~~Mr. Whittome~~

~~Interfund~~

~~Paris, France~~

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~~1.~~ Following summarizes information sent by Chairman of Berne Group to Dobrich of Manufacturers Hanover. Unless otherwise indicated amounts are in millions of U.S. dollars.

Austria: Offered 60 in suppliers credits for raw materials and is prepared to guarantee 42 in rollover of maturing medium term bank debt in 1983. Latter is still subject to Parliamentary approval.

Belgium: Prepared to insure up to a maximum amount of 12 of new supplier credits for raw materials. Would also be prepared to allow any repayments of suppliers credits in 1983 to be counted against maturing sup-pliers credits in 1984.

Canada: Are considering implementing 40 pledged in export credits. Hope bilateral discussions with Yugoslavs take place in near future.

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Denmark: Have offered 15 in export credits for contracts concluded after December 2, 1982 and not later than end 1983.

Finland: Have offered 10 in export credits for capital goods. To date 8 has been accepted by Yugoslav enterprises.

France: A financial credit equivalent to F 100 million in DM or U.S.dollars, with COFACE guarantee. It is meant to finance the downpayments on the transferable part of the trade credits mentioned below. Export credits in amount equivalent to F 900 million available to Yugoslavia. Contracts are to be concluded with a 15 per cent down payment which can still be totally financed out of the exceptional financial credit of FF 100 million described above. Export credits to comprise F 450 million for three years to finance semifinished goods, equipment and spares parts, of which F 150 million in francs and F 300 million in DM. F 169

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million for 5 years in francs to purchase small equipment goods. France will shortly consult with Yugoslavia how the remaining F 281 million are to be allocated.

Germany: Offered DM 405 million in new guarantees for export credits for raw materials as well as goods for vital needs. Prepared to rollover maturities of financial credits due in 1983 up to an amount of DM 125 million.

Italy: Have offered 30 in tied financial credits for imports of raw materials and 65 for export credits for raw materials. Also prepared to guarantee rollover of 40 bank credits falling due in 1983.

Japan: Offering 25 in export credits for imports of machinery, spare parts, steel products and similar goods. Also prepared to guarantee 10 suppliers credits falling due in 1983.

Netherlands: Financial credit of Dutch guilders 64.8 million has been contracted with National Bank of

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Yugoslavia. Export credit guarantees of up to amount of 25 also offered.

Sweden: Have offered a guaranteed facility up to an amount of SKr 150 million. The facility will be applied to credits under agreements concluded before January 1, 1984 for financing exports to Yugoslavia.

Switzerland: Have offered 40 in financial credits and 17.5 in tied financial credits, also 22.5 in export credits for raw materials and 31.9 in export credits for capital goods. Paralleling these government credits would be 7.5 of bank export credits for raw materials and 42.5 of bank credits for capital goods. Yugoslavia has not accepted the 7.5 of tied financial credits in down payments for capital goods and the 42.5 of private bank credits for capital goods. If these offers not accepted Swiss banks may withdraw their offer of 7.5 of export credits for raw materials. Second round of negotiations to take place in early June with intention

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that credits should be available by June 27.

United Kingdom: 38 million pounds sterling untied financial credit of which half disbursed by March 31, 1983. Have made 20 million pounds sterling available in short term ECGD guaranteed credits on a revolving basis. Some new credits for capital goods amount of 16 being made available for completion of projects.

United States: 235 in guarantees of new commercial bank loans to finance exports of agricultural commodities has been made available. 40 per cent of this amount has already been contracted and 20 per cent of the CCC commodities already shipped. Also 37 in 1983 maturities due Exim Bank to be extended. In addition to Berne package 95 in medium term maturities due Exim Bank directly or due U.S. commercial banks will be guaranteed or insured by Exim Bank. As part of Berne pledge Exim Bank has agreed to maintain converage in Yugoslavia.

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There is no data from Norway and that on Netherlands, Japan and Sweden not very firm.

Personal judgment is that at most 800 to 900 of Berne pledges are usable and do not duplicate bank contributions. Of this no more than 650 likely to be disbursed in 1983.

2. Magnitude of exemptions from minimum rate for commercial bank loans financed from their own resources main sticking point in SAL negotiations. Informed World Bank that Fund would want much earlier action on foreign exchange allocation system and they are sympathetic.

3. Florjancic telexed World Bank to request Fund to exempt domestic credits arising from disbursements of World Bank loans from NDA ceilings. I told World Bank

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that Florjancic should take this matter up directly with Fund Staff and they will tell him so.

Regards

Manison

Interfund

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MR WHITTOME

INTERFUND

PARIS OFFICE

PARIS, FRANCE

DISTRIBUTION

1. OTHER INFORMATION CHAIRMAN OF BERNE GROUP SENT TO THE ICC INDICATE THAT REPORTED REPAYMENTS DUE IN 1983 TOTAL $915 MILLION, OF WHICH $139 MILLION RELATE TO DIRECT GOVERNMENT CREDITS, $316 MILLION TO SHORT-TERM CREDITS GUARANTEED, INSURED OR REFINANCED BY GOVERNMENT OR GOVERNMENTAL AGENCIES, INCLUDING $295 MILLION TO AUSTRIA, AND $460 MILLION ON MEDIUM AND LONG-TERM CREDITS GUARANTEED, INSURED OR REFINANCED BY GOVERNMENT OR GOVERNMENTAL AGENCIES. THIS TOTAL IS OBVIOUSLY AN UNDERESTIMATE AS CERTAIN REPAYMENTS HAVE NOT BEEN REPORTED.

2. SAME INFORMATION INDICATES ALSO THAT BERNE GOVERNMENT OFFER EXPORT CREDITS IN 1983 OUTSIDE THE BERNE PACKAGE AMOUNTING TO $228 MILLION, A SIZEABLE PORTION OF WHICH IS FOR IMPORTS OF CAPITAL GOODS.

3. SAL NEGOTIATIONS STILL SUGGEST BOARD MEETING AT END-JUNE WITH FIRST DISBURSEMENT IN JULY. REGARDS

MANISON

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LES MANISON — EXT. 73726 — DEPT. EUR — DATE 13 MAY 1983

P. de FONTENAY

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May 11, 1983

MEMORANDUM FOR FILES

Subject: Meeting with Mr. Loncar on the current status of the Yugoslav financial package and prospective developments

Mr. Loncar visited Mr. Whittome to review with him the progress that was being made in putting together the financial package for Yugoslavia. According to Mr. Loncar the SAL negotiations with the World Bank had made progress which he described as a breakthrough, but nonetheless there were still questions about the interest rate to be resolved. A breakfast had been held at the Embassy with the SAL negotiators on the Yugoslav side and their best judgement was that the SAL loan would be agreed on schedule. We have tried to contact Mr. Chopra to get the Bank's assessment of the current status of the negotiations and he is to get back in touch with us this afternoon.

Perhaps the main reason for the visit was to ask Mr. Whittome to assess the proposal by Manufacturer's Hanover to hold meetings for all of the participating banks in New York, London and Frankfurt at the end of May. Ebert had explained that these meetings would be useful in encouraging the smaller banks to take up their share of new money. It was suggested that a Yugoslav official with a large title, that is to say, Mr. Smole, be asked to attend these meetings. Mr. Loncar was surprised at Mr. Ebert's suggestion and wondered whether the Fund had such meetings in mind. Fund participation in these meetings was also foreseen by Mr. Ebert. According to Ebert these meetings had proved useful in the case of 'Brazil' and had not lead to the raising of basic issues that could prove counterproductive. Mr. Whittome said that he had been unaware of Ebert's intention to hold such meetings and that the Yugoslav authorities should seek Ebert's firm personal assurances that he as chairman would take care of any difficult questions that might arise that could jeopardize the agreements reached thus far with the banks. Mr. Whittome noted that he could only participate in a New York meeting if it were to be held on the 24th or 25th of May given his current travel schedule. Mr. Mentre or other members of the team in Yugoslavia could perhaps participate in the meetings in London and Frankfurt. Chile, I think

At Mr. Loncar's request Mr. Whittome reviewed the current economic situation in Yugoslavia and the issues that were likely to emerge during the mid-year review. He stressed the need for further adjustment and noted particularly that agreement would have to be reached on the increasing of interest rates. Mr. Loncar argued for gradualism and understanding, but Mr. Whittome noted that even in March, the Board had been rather doubtful about the adequacy of the interest rate measures undertaken, and that both from an economic and political perspective much further action would be required. He also stressed the importance of demonstrating the responsibility and responsiveness of Yugoslav authorities in their policy actions in 1983 as a precondition for obtaining a 1984 financing package which would surely be necessary. Mr. Loncar queried whether Government participation in such a package would again be necessary, or whether the Yugoslav authorities could rely only on the banks and international organizations. In Mr. Whittome's view, Government participation would be essential, if only because the banks would require some parallelism in the extension of credits. It was noted discussions, at least until after the annual meeting, should be extremely discrete, though the Yugoslav authorities could discuss with individual friendly governments the prospective financial needs for 1984 before the annual meeting.

D.Ripley DR

cc: Mr. Whittome
    Mr. Manison
    Mr. Hansen

- Floster
- Jo. F.L.

Office Memorandum

TO : Mr. de Fontenay DATE: May 11, 1983

FROM : Mr. Manison LSM

SUBJECT : Yugoslavia–Possible Compensatory Financing

In late 1982 and early 1983 the staff together with Yugoslav officials made calculations to see whether Yugoslavia could have access to the CFF using calendar 1982 as the shortfall year. At the turn of the year, it was estimated that exports of goods and certain services, namely tourism and overseas worker's remittances would need to grow by at least 7 per cent per annum in the period 1982 to 1984 in order to establish a shortfall for 1982. As this aggregate was projected to decline sharply in 1983, the rate of growth of exports was not judged sufficient to establish a shortfall. Exports to the nonconvertible currency area were expected to decline in 1983 in part due to deliberate efforts to stimulate exports to the convertible currency area, while remittances from Yugoslav workers abroad and tourist receipts (which were included in calculations of export shortfall relevant to the previous CFF drawing) were expected in aggregate to decline substantially.

The latest forecast figures on exports of goods and services in 1983 suggest that earlier forecasts may have been on the optimistic side. While merchandise exports to the convertible currency area did well in the initial months of 1983, the present low level of stocks for export-oriented production, the sharp declines in inflows of worker's remittances and in advance bookings for tourism suggest that 1983 could be a relatively poor year for the total exports of goods and services. The latest forecasts for exports of goods and certain services are given in the attached table.

On the assumptions that the beneficial effects on exports of goods and services of a more active exchange rates policy pursued from early 1983 onwards become more pronounced in 1984 and 1985 and that a restoration of confidence in the Yugoslav economy also boosts tourism and worker's remittances, it would seem highly likely that there will be a very rapid growth of total exports of goods and services between 1983 and 1985.

Accordingly, at this stage there is a strong probability that calendar 1983 could be established as a short-fall year and that purchases from the CFF could be up to 100 per cent of quota. Moreover, if actual data for the first 6 months of 1983 tend to confirm these forecasts for the full year 1983 then it may be possible for Yugoslavia to purchase under the CFF in the second part of 1983 (probably after the Board discussion of mid-term stand-by review in July) under the early drawing procedure. 1/ However, if the replace-

1/ This procedure allows a member to estimate earnings for up to 6 months of the shortfall year for merchandise exports and up to 12 month for services.

ment of the forecast monthly estimates for the shortfall year by actual data indicate that Yugoslavia had been over compensated under the CFF, then the amount of over compensation would have to be immediately repurchased.

Attachment

cc: Mr. Mentre
Ms. Ripley
Mr. Hansen
Mr. Lewis
Mr. Petersen

Yugoslavia: Actual and Forecast Developments in Total Exports of Goods and Services

(In millions of U.S. dollars)

	1980	1981	1982	1983	1984	1985
Merchandise exports						
Convertible currency area	5,656	5,721	5,858	6,146	7,006	8,056
Nonconvertible currency area	3,322	4,307	4,389	4,204	4,490	4,800
Total	8,978	10,028	10,247	10,350	11,496	12,856
Tourism receipts	1,645	1,713	1,520	1,610	1,850	2,125
Inflow of workers' remittances	4,050	4,194	4,350	3,100	3,720	4,275
Total exports of goods and certain services	14,673	15,935	16,117	15,060	17,056	19,258

Sources: National Bank of Yugoslavia; and staff estimates.

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WASHINGTON, D. C. 20431

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~~MR. PAUL MENTRE~~
~~MOSKVA HOTEL~~
~~BELGRADE~~
~~YUGOSLAVIA~~

DISPATCHED IMF
1983 MAY 10 PM 3 18

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WOULD APPRECIATE IF YOU CAN REVIEW CAREFULLY YOUR SCHEDULE FOR YUGOSLAV MISSIONS. IN VIEW OF THE PROBLEMS CAUSED BY ONLY A SHORT INTERVAL BETWEEN THE ENDING OF THE CURRENT VISIT AND THE BEGINNING OF THE NEXT I WOULD SUGGEST THAT YOU EITHER BEGIN THE SECOND STAGE OF THE PRESENT DISCUSSIONS IN BELGRADE ON MONDAY, MAY 16 SO AS TO PERMIT RETURN OF COLLEAGUES TO WASHINGTON IN MIDDLE OF NEXT WEEK OR BRING FORWARD DATES OF JUNE MISSION SO THAT PRESENT MISSION IN EFFECT EXTENDS CONTINUOUSLY THROUGH TO JUNE 10. THE SECOND ALTERNATIVE WOULD OF COURSE NEED TO BE AGREED WITH THE YUGOSLAV AUTHORITIES.

BEST REGARDS

WHITTOME

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AUTHORIZED BY NAME (TYPE): L.A. Whittome — AUTHORIZED BY NAME (TYPE): — (**)

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SEC. 48 REV 1 11-18-82

file: Hungary
Yugoslavia

Office Memorandum

May 10, 1983

MEMORANDUM FOR FILES

Subject: Hungary and Yugoslavia

At a meeting today with representatives of the Chemical Bank they alleged that the information available to them in respect of both Hungary and Yugoslavia had been seriously incomplete. They had nevertheless "played their part" but if more was to be expected from them in the future they would want adequate information to convince themselves and their managements that it was right to increase their exposure.

L.A. Whittome

cc: Mrs. Junz
Mr. Mentré
CED
EED

Wayne (Pbb 9/5 21/9 2
30/5 22/6 3

6 wks Mr Whittome

May 10, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - Recent Developments

I spoke this morning with Mr. Lewis. He said that he had impressed upon Mr. Petrovic the importance of providing us the liability side NDA figures. These figures were certain to fall well within the limits set in the stand-by agreement and would be telexed to us on Friday. I asked Mr. Lewis to once again stress to Mr. Petrovic the importance of sending us these numbers since he would not be in Belgrade on Friday to follow through and I would not be in Washington to prod. The numbers should be telexed to Mr. Manison. Mr. Lewis reported that the incomes developments in Yugoslavia had been much more restrained than we had expected. The first quarter outturn was somewhat below the fourth quarter of 1982. Looking at the developments of real personal incomes, the first quarter outturn was down 8.8 per cent from a year earlier. This number was based on a rise in the cost of living index of 34.1 per cent; a rise in employment of 2.2 per cent; and an increase in the wage and salary bill of 25 per cent. The 25 per cent figure covers a wide range of outturns with the increase in the economic sector being 27 per cent and other sectors registering increases as small as 16 per cent. The wage outturn for the public sector had been extremely restrained. It would appear that the differential rates of growth between the economic and noneconomic sectors of some 7-9 per cent, which had not been enshrined in the annual plan resolution, had in fact been realized.

Additional information had been obtained on the public sector revenues that were to be frozen, and on how this freezing had in fact been carried out. The exclusion that the Yugoslav authorities had noted, that is revenues for payments having the characteristic of personal income payments, was in fact not as sweeping as we had thought. These revenues can be used to cover pensions but exclude notably payments for personal incomes per se. The freezing process of excess revenues accruing to republics, provinces and local governments, but exclude revenues earmarked as transfers to the federal government and federal government revenues. For collective consumption the objective of keeping the outturn for the first quarter of 1983 on the average quarterly level for 1982 had been attained on average. However, the average covers a wide variety of outturns, and the excess revenues accruing to particular republics, provinces, and local governments had in fact been frozen. The sum frozen amounted to Din 5 billion and had been placed in blocked accounts with commercial banks. These accounts were described as "sight deposits." The outturn for general consumption revenues was even more restrained, with the first quarter outturn

Office Memorandum

May 9, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

Not without some difficulty I persuaded Mr. Erb that it would not be useful to request a special meeting of the Board on the Yugoslav request for a waiver.

I said that a large part of the "blame" must be attributed to a shortfall in financial assistance and that we would not agree in the June review to a program for the second half of 1983 unless we had strong enough policies in place.

L.A. Whittome

cc: CED

SEC-14
10-19-73

Mr. Whittome

CC: CED

Office Memorandum

TO: Treasurer
Internal Auditor

Director, European Department
Director, Exchange and Trade Relations Department
Director, Legal Department

DATE: May 9, 1983
12 noon

FROM: for The Secretary (Signed) John Kay

SUBJECT: Yugoslavia - Review of Economic Performance and External Financing Package

This is to advise you that within the time specified no Executive Director has expressed an objection to the matter set out in EBS/83/88 (5/4/83).

Accordingly, the Executive Board's approval is assumed and will be so recorded.

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INTERFUND PARIS MAY 9 1983

INTERFUND
WASHINGTON DC

FOR MR WHITTOME
CC: MS. RIPLEY

SUBJECT: YUGOSLAVIA - FRENCH BANKS

AS AGREED, I PAID A VISIT TO TRICHET, IN THE FRENCH TREASURY, ON THE BASIS OF A TELEPHONE DISCUSSION I HAD WITH DOBRICH (MANUFACTURERS HANOVER, NEW YORK). I THOUGHT IT USEFUL, IN ADDITION, TO SEE MR. BEXON FROM SOCIETE GENERALE WHO WAS RECENTLY IN BELGRADE.

THE SITUATION IS AS FOLLOWS. THE DOLLARS 600 MILLION LOAN TO BE ASSEMBLED BEFORE END JUNE 1983 WILL BE ALLOCATED AMONG BANKS ACCORDING TO THEIR EXPOSURE ON NOVEMBER 30, 1982. GOVERNMENT GUARANTEED CREDITS, WHICH ARE COVERED BY THE BERNE GOVERNMENTAL AGREEMENT, ARE EXCLUDED FROM THIS BASIS. THE FRENCH BANKS WANT TO EXCLUDE AS WELL THE DOLLARS 150 MILLION CREDIT THAT THEY EXTENDED AT END 1981 (AFTER FIRST TRANCHE OF DOLLAR 150 MILLION IN 1980). THEY MAINTAIN THAT THIS LOAN WAS EXTENDED AT THE REQUEST OF THE FRENCH GOVERNMENT, IN THE FRAMEWORK OF AN INTERNATIONAL COORDINATED PACKAGE AND SHOULD THEREFORE BE TREATED AS OTHER GOVERNMENTAL CREDITS. PENDING THE SOLUTION OF THIS MATTER, THEY DO NOT WANT TO WAIVE, IN A MANNER JUDGED ADEQUATE BY THE BIS, THEIR NEGATIVE PLEDGE CLAUSE.
IT MEANS THAT THE DOLLARS 200 MILLION CREDIT FROM THE BIS, ASSOCIATED WITH A GOLD PLEDGE, CANNOT BE IMPLEMENTED (IN ADDITION, THE NEGATIVE PLEDGE CLAUSE INCLUDED IN A KUWAITI-LED SYNDICATED CREDIT HAS NOT YET BEEN WAIVERED).

TRICHET FULLY BACKS THE POSITION OF THE FRENCH BANKS. HE CONSIDERS THAT THE DOLLARS 150 MILLION 1981 LOAN WAS INDEED PART OF AN INTERGOVERNMENTAL PACKAGE, AGREED AT THE TIME OF THE VENICE SUMMIT TO WHICH FRANCE WAS (ALONE ?) FAITHFUL. THE FRENCH BANKS, WHICH HAVE BEEN ENCOURAGED BY THE FRENCH GOVERNMENT, SHOULD NOT BE PENALIZED FOR IT. BUT THE TREASURY DOES NOT STAND READY TO GIVE ANY FORMAL GUARANTEE EITHER RETROACTIVELY, AS ASKED FOR INITIALLY BY THE FRENCH BANKS, OR FOR THE PORTION OF THE DOLLARS 600 MILLION CREDIT WHICH WILL BE BASED ON THE DOLLARS 150 MILLION FRENCH LOAN. FOR HIM, THE MATTER HAS TO BE SOLVED BETWEEN THE BANKS THEMSELVES

IMF OFFICIAL CABLE

AND, SINCE THE FRENCH BANKS HAVE BEEN ABLE TO OBTAIN A NEGATIVE PLEDGE CLAUSE (WHICH, ACCORDING TO HIM, IS NOT THE CASE FOR ALL BANKS), IT IS QUITE LEGITIMATE FOR THEM TO USE THE WAIVER AS A BARGAINING INSTRUMENT.

THE BANKERS WILL MEET IN NEW YORK ON MAY 12 AND 13 (WHICH MEANS THAT MR. DOBRICH WILL BE IN BELGRADE ONLY ON THE 17TH OR 18TH). THE FRENCH BANKS ARE TRYING TO CONVINCE THE YUGOSLAV AUTHORITIES TO HANDLE THE DOLLARS 150 MILLION LOAN AS A GOVERNMENT RELATED LOAN (''OTHERWISE PROTECTED''), WHEN REPORTING BANKS' CLAIMS AND TO SEND TO THEM A TELEX TO THAT EFFECT. DOBRICH SAID TO ME HE WOULD BE READY PERSONALLY TO ACCEPT THE JUDGMENT OF THE YUGOSLAV AUTHORITIES PRO-VIDED IT IS BASED ON A LETTER FROM THE FRENCH GOVERNMENT. THE ICC DOES NOT NEED TO HAVE A COMMUNICATION OF THIS LETTER. ITS WORDING IS THUS ENTIRELY LEFT TO THE FRENCH AND YUGOSLAV AUTHORITIES. THE FRENCH BANKS THINK THAT A COPY OF THE LETTER ALREADY SENT TO THE SWISS PRESIDENT OF THE BERNE GROUP MIGHT BE SUFFICIENT.

THE FRENCH BANKS AND THE TREASURY ARE WORKING WITH THE YUGOSLAVS ALONG THESE LINES, BUT IT CANNOT BE EXCLUDED THAT NO AGREEMENT WILL BE REACHED OR THAT DIFFICULTIES WILL APPEAR DURING THE NEW YORK MEETING. THERE IS NO NEED FOR A FORMAL REQUEST AT THIS STAGE FROM THE MANAGING DIRECTOR TO MR. DELORS. BUT IT MIGHT NEVERTHELESS BE USEFUL IF HE WERE ABLE TO MENTION THE OVERALL YUGOSLAV SITUATION TO MR. DELORS, INCLUDING THE LIKELIHOOD OF A NEW PACKAGE FOR 1984. HE COULD THEN MENTION THAT THERE ARE STILL UNRESOLVED DIFFICULTIES BETWEEN THE FRENCH BANKS AND THE OTHER BANKS ON WHICH HE MIGHT LATER HAVE TO CALL THE ATTENTION OF MR DELORS IF THESE DIFFICULTIES WERE NOT SOLVED AT THE FORTHCOMING MEETING IN NEW YORK ON MAY 12-13. I SENT TO YOU BY POUCH SOME RELEVANT DOCUMENTS. IF I GET ADDITIONAL ELEMENTS IN BELGRADE, I WILL REPORT THEM TO YOU BY TELEPHONE. A COPY OF THIS TELEX WILL BE MADE AVAILABLE TO THE MANAGING DIRECTOR IN THE PARIS OFFICE.

REGARDS,

MENTRE
INTERFUND PARIS

248331 IMF UR

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Time: 15:19 05/09/83 ???
Connect Time : 734 seconds

cc: CED

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3003 Berne, May 6, 1983

International Coordinating Committee
for Bank Assistance to Yugoslavia
Attn: Mr. Fulvio Dobrich
Senior Vice President
Manufacturers Hanover Trust Company

New York

Dear Sir,

At the meeting on financial assistance to Yugoslavia which has taken place in Zurich on April 16, 1983, the representatives of the 15 countries present have agreed to transmit to the Chairman of the Group of Berne information on actions taken or planned by their Governments in order to meet the wish of the International Coordinating Committee for more transparency and to facilitate the conclusion of an agreement between the commercial banks and Yugoslavia. They have also authorized the Chairman to communicate this information, in an appropriate manner, to the ICC and to the IMF.

Although up to this day we have not yet received the information needed from Japan, the Netherlands, Norway and Sweden, we have the honour to send you in the enclosure, in view of the meeting of the ICC in New York on May 12 - 13, 1983, the contents of the Governments' answers which are already available.

The information is, whenever possible, presented for each country as follows:

1. Direct credits from governments or governmental agencies to Yugoslav obligors which are due and payable in 1983

2. Credits which are due and payable in 1983 by Yugoslav obligors and which are guaranteed or insured by governments or governmental agencies

3. Parts of items 1 and 2 which are rolled over or refinanced by governments or governmental agencies, including roll over or renewal of guarantees or insurance

4. New credits from governments or governmental agencies to Yugoslav obligors, including new guarantees or insurance

(a) Untied financial credits

(b) Tied financial credits

(c) Export credits

(i) for consumer and reproduction goods

(ii) for capital goods

As soon as we will receive the answers of the Governments of Japan, the Netherlands, Norway and Sweden we will transmit them to you without delay.

May we draw your attention to the confidential nature of the information given. It is intended exclusively for the use of the ICC, the IMF and, of course, the Governments of the creditor countries.

Yours sincerely,

For the Chairman of the Group of Berne

(J. Failletaz)

Head of the Economic and Financial Service
Federal Department of Foreign Affairs

Enclosures mentioned

AUSTRIA

1. None

2. Guaranteed export credits (supplier credits and banking sector)

   Maturities 1983: Austrian shilling 5,6 billion, hereof supplier credits / mostly short term: appr. AS 5 billion, banking sector / medium term: appr. AS 600 mio.

3. According Larosiere telex medium term maturities / banks being guaranteed by the Federal Republic are considered to be rolled over in the amount of AS 710 mio. upon approach by the banks according the agreement of the banks. This however would be a modification of our original Berne pledge of US dollar 40 mio. (= AS 680 mio. the equivalent to the roll over).

   For the pledged amount of US dollar 40 mio. parliamentary procedure is necessary which cannot be induced before the end of May. (General elections having taken place only on April 24th, 1983).

4. According to the Austrian pledge in Berne / January 1983 in the amount of US dollar 100 mio. Austria has issued an offer of cover for Austrian shilling 1 billion (equivalent of US dollar 60 mio.) by mid March which can be utilized for Austrian repro-material.

BELGIUM

1. None

2. Exposure as at January 1st, 1983 for medium and long terms buyer and supplier credits: 650 million Belgian francs (capital + interest)

3. Insurance up to an amount of 650 million Belgian francs for financial credits provided by Belgian banks to the initially involved Yugoslavian commercial banks acting either as original debtor or as guarantor.

   The drawings on these credits shall be tied to the payment of Yugoslavian insured medium and long term debt (capital + interest) falling due in 1983.

   Taking into account the payments made on the original due dates for debts (capital and/or interest) fallen or falling due in 1983, the possible balance between the amount of BF 650 million and the total amount of the effective drawings may be used for the payment of similar debts falling due in 1984, in the chronological order of their maturities.

   These credits shall be reimbursed in 8 equal semi-annual instalments, the first falling due on June 30th, 1985.

4. (a) None
   (b) See 3. hereabove
   (c) (i) Insurance, up to a maximum amount of 550 million Belgian francs of new supplier credits for reproduction goods.

   These credits shall be reimbursed in 6 equal semi-annual instalments, the first falling due 6 months after each delivery.

   (ii) Refused by Yugoslavia.

Notes: - The bilateral agreement has been signed on April 21, 1983. Its entering into force is subject to the signing between the Yugoslavian and Belgian banks of the financial credits referred to sub 3.

- Export credit insurance remains available for short term business.

CANADA

1. Principal Canadian 9.6 million dollars, interest Canadian 2.9 million dollars.

2. Insured credits Canadian 2.1 million dollars.

3. None

4. Canadian ministers are considering mechanisms by which Canada will implement its pledge of US 40 million dollars in export credits. We hope to hold bilateral consultation with Yugoslavs in near future.

DENMARK

1. Denmark has not given any direct credits from government or governmental agencies to Yugoslav obligors.

2. 89 million Danish kroner are due and payable in 1983 for medium and long-term credits. Short-term credit is approximately 10 million Danish kroner.

3. Danish authorities have not foreseen any roll over or refinancing.

4. (a) None
   (b) None
   (c) (i) None
       (ii) 125 million Danish kroner for medium-term export credits for contracts concluded after 2nd December, 1982, and not later than 31st December, 1983.

FINLAND

1. None

2. Payable in 1983: Finnish markka 7,9 million

3. None

4. (c) The relevant Finnish authorities have opened facilities for export credits connected with exports to Yugoslavia of capital goods for value totalling 10 million US dollars. So far credit reservations for particular transactions with Yugoslav organisations of associated labour have been made for the value totalling 8 million US dollars, with the relevant guarantees, as provided for in the Berne Memorandum of Understanding. Should any of the submitted offers for transactions not be accepted by the relevant Yugoslav organisations, the credit facilities totalling 10 million US dollars remain available.

FRANCE

2./3. Les échéances en principal de crédits garantis à moyen et long terme payables en 1983 se montent à 765 millions de Francs Français et, aux termes de nos accords avec les autorités Yougoslaves, elles ne doivent faire l'objet ni d'un "roll over" ni d'un financement.

4. Les mesures d'application de l'accord de Berne, arrêtées le 19 mars 1983 à la suite d'un échange de lettres avec les autorités Yougoslaves sont les suivantes:

a) Des crédits commerciaux pour un montant équivalent à 900 millions de Francs Français, d'une durée de 3 et 5 ans, sont mis à la disposition de la Yougoslavie. Les contrats conclus donnent lieu au versement d'un acompte de 15 % qui peut être lui même entièrement financé grâce au crédit financier exceptionnel de 100 MF décrit au b).

Ces crédits commerciaux, se décomposent ainsi:

- 450 MF de crédits à trois ans destinés au financement de demi-produits, de biens d'équipement et de pièces de rechange dont 150 MF libellés en Francs Français et 300 MF en DM;
- 169 MF de crédits à 5 ans en Francs Français destinés à l'achat de petits biens d'équipement.

Ces crédits sont remboursables par semestrialités égales et consécutives.

- Il a été convenu que les deux parties se retrouveraient prochainement pour décider au vu de l'évolution de la situation de l'affectation précise des 281 MF restants qui seront consacrés à des opérations de diversification et de consolidation des échanges entre les deux pays. Ces conversations pourraient notamment avoir lieu à l'occasion d'une Commission mixte prévue pour le début

FRANCE

b) Un crédit financier d'un montant équivalent à 100 MF en DM ou en US$, garanti par la COFACE. Il est destiné à financer les acomptes sur la part rapatriable des crédits commerciaux visés plus haut. D'une durée de 3 ans, il est remboursable en six semestrialités égales et consécutives.

Par ailleurs, cette année les tirages de crédits sur des contrats conclus antérieurement à décembre 1982 peuvent être estimés entre 150 et 200 MF qui s'additionneront aux concours publics dont la Yougoslavie devrait bénéficier en 1983.

FEDERAL REPUBLIC OF GERMANY

1. The Kreditanstalt für Wiederaufbau has granted three loans on concessional terms to Yugoslavia totalling 1 billion DM. Payments on principal due on these loans in 1983 amount to 13,3 mio. DM.

2. Outstanding payments due in 1983 on principal of guaranteed export credits pursuant to contracts concluded before December 2, 1982, total 75 mio. DM. This amount includes maturities on short term credits.

3. The government of the Federal Republic of Germany has informed the government of Yugoslavia of its willingness to extend guarantees for payments on principal for financial credits which fall due in 1983 for a period of three years. These payments amount to 111 mio. DM. Repayment is in 6 semiannual instalments (no grace period). The Federal Government will extend guarantees given for financial credits as outlined above following the conclusion of the necessary roll-over arrangements between German creditors (banks) and Yugoslav debtors (banks and importers).
It is stressed, however, that this operation does not concern direct credits from the Federal Government (see nr. 1) or export credits (supplier credits) guaranteed by the Federal Government (see nr. 2), it is limited to the roll-over of maturities on financial credits.

4. (c) (i) The Federal Republic has made available 405 mio. DM as new guarantees for exports credits. These guarantees may be used for imports of reproduction goods as well as for goods of "vital needs".
In the event that the amount needed for the roll-over of maturities of financial credits due in 1983 falls short of the 125 mio. DM initially earmarked, the 405 mio. DM made available for export credits may be augmented by a further 14 mio. DM in order

FEDERAL REPUBLIC OF GERMANY

the Berne package.

Note: export credits additional to the Berne package:
109 mio. DM for reproduction goods
88 mio. DM for capital goods

ITALY

L'Italia ha avuto 29 marzo scorso a Belgrado - in esecuzione impegni assunti con Memorandum of Understanding firmato a Berna il 19 gennaio 1983 - una prima serie di colloqui con Jugoslavia per utilizzo pledge 135 milioni di dollari. Prossimamente a Roma saranno riprese trattative.
Secondo previsioni, salvo difficoltà da parte Jugoslava, entro metà maggio negoziato potrebbe essere concluso.

1. Lit. 45 miliardi
2. Lit. 40 miliardi: crediti fornitori
3. 40 milioni di dollari - rimborso in 5-6 anni - come credito finanziario destinato al rifinanziamento delle scadenze 1983 dei crediti finanziari a medio e lungo termine.
4. (b) 30 milioni di dollari come credito aiuto per acquisto in Italia beni di riproduzione, con rimborso in venti rate semestrali e 24 mesi di grazia.

   (c) 65 milioni di dollari per acquisto in Italia di beni di riproduzione, con rimborso in 9 rate semestrali.

Normale flusso coperture assicurative viene mantenuto.

JAPAN

1. 1.014 million yen

2. 5.446 million yen

3. None

4. (a) None

   (b) None

   (c) - 25 million dollars bank loan by the Export and Import Bank of Japan.
   The terms and conditions will be finalized in the on-going bilateral discussions. The goods to be purchased are machinery, spare parts, steel products and similar goods thereto and should be imported before the end of 1983. It is difficult to divide these goods between (i) and (ii).
   The duration will be decided within the guide-line of OECD. In accordance with the OECD guide-line there will be given no grace period.

   - 10 million dollars supplyer's credit with long or medium term guarantee:
   This amount corresponds to the expected amount of disbursements (shipment) to be made within the year of 1983 which are related to the export contracts, whose guarantees are made after December 3, 1982.
   The goods to be purchased are machinery, equipment and so on, so these are classified (ii)
   The terms and conditions are falling under the OECD guide-line, and there is therefore no grace period.
   Durations are different by individual cases.
   These supplyer's credits with medium or long term guarantee are already committed preliminarily and are

JAPAN

ready to be disbursed, waiting for the completion of Jugoslav procedure (issue of import licence).

- 25 million dollars export credit with short term guarantee. The goods to be purchased include half finished goods and raw materials, so it's also difficult to devide these between (i) and (ii). The export credits with short term guarantee are already being used.

NETHERLANDS

1. None

2. 80 million guilders

3. None

4. (a) On April 26, 1983 a contract has been signed for a loan of 64.787.500.-- guilders from the "De Nederlands Investeringsbank voor Ontwikkelingslanden" to the National Bank of Yugoslavia.
   Duration: 5 years and 2 months
   Grace period: 2 years and 8 months

   (b) None

   (c) The Netherlands pledge in Berne: Export credit-guarantees up to an amount of 25 million US-dollars for the medium term.

SWEDEN

1. None

2. Principal amounts guaranteed by the Swedish Export Credits Guarantee Board ("EKN"), falling due during the period January 18 - December 31, 1983, in million SEK:

   - Buyers' credits: Approximately 52.8 (guaranteed part around 85%)

   - Suppliers' credits: Approximately 45.5 (guaranteed part around 85%)

3. See below, item 4 (c)

4. (a) None

   (b) None

   (c) As pledged in the Berne Memorandum of Understanding, the Swedish government has authorized a guarantee facility of a maximum amount of SEK 150 million, to be implemented by EKN. No bilateral agreement between the Swedish and Yugoslav governments is called for to implement this facility. The facility will be applied to credits under credit agreements concluded before January 1, 1984 for the financing of exports from Sweden to Yugoslavia. Cover for such credits is granted on the condition that Yugoslavia is fulfilling its payments obligations under contracts covered by EKN.

SWITZERLAND

1. None

2. 59,6 mio. Swiss francs

3. None

4. (a) 50 mio. $, eventually 40 mio. $
   (b) 7,5 mio. $, eventually 17,5 mio. $
   (c) (i) 22,5 mio. $
       (ii) (guarantee by ERG) 31,9 mio. $
       duration 7 years, grace period 4 years

   Credits of private banks parallel to the credits mentioned above:

   (c) (i) 7,5 mio. $
       (ii) (including above-mentioned guarantee by ERG) 42,5 mio. $

Notes: - The negotiations with Yugoslavia are still under the way. Yugoslavia does not yet accept the following credits: 7,5 mio. $ of the tied financial credits (down paiments for capital goods) and the 42,5 mio. $ credit of the private banks for capital goods guaranteed by ERG. If this credit of 42,5 mio. $ should not be accepted by the Yugoslav side, the Swiss private banks might eventually withdraw their offer of 7,5 mio. $ export credit for consumer and reproduction goods.

- Second round of negotiation this month or early June with the intention that the credits should be available by 27th of June.

UNITED KINGDOM

1. None

2. Short-term: ecgd guaranteed credits up to a total of 20 million pounds outstanding at any one time are available on a revolving basis.
Medium and long-term maturities: see 3 below

3. 40 million pounds of medium term loans at market rates of interest to be guaranteed by ecgd to refinance Yugoslav debts to insured UK exporters falling due in 1983. These loans will cover 100 percent of medium and long term buyer and supplier credit maturities and some interest.

It is proposed that the repayment period should by 5 years, including a two year grace period. The UK government commenced discussions on this proposal with the domestic banks and the Yugoslav government in the second half of February.

Short-term: see 2 above

4. (a) 38 million pounds government-to-government untied financial credit. Five years duration, including three and a half years grace period. Half disbursed by 31 March 1983.

(b) None

(c) (i) see 2 above on short-term credits.

(ii) Some new export credits for capital goods (amounting to 16 million dollars) is being made available on an ad hoc basis for the completion of projects.

USA

1. Export-Import Bank 74,5 million dollars
   Agency for International Development 3 million dollars
   U.S. Department of Agriculture (PL 480) 4,4 million dollars

2. Commodity Credit Corporation (CCC) 9,4 million dollars
   Export-Import Bank 57,7 million dollars

3. U.S. pledge to Berne package of up to 272 million dollars (20 percent of 1.36 billion dollars) consists of 235 million dollars in new guarantees by the Commodity Credit Corporation and 37 million dollars in 1983 maturities due Eximbank to be extended.

   Additional to Berne package: 95 million dollars in medium and long term maturities due Eximbank directly or due U.S. commercial banks guaranteedd or insured by Eximbank.

   Grace and repayment periods have not yet been negotiated with the Yugoslav authorities but essentially will be comparable to those agreed by the commercial banks.

4. (a) None
   (b) None
   (c) The CCC amount in the Berne package consists of 235 million dollars in guarantees of new commercial bank loans to finance exports of agricultural commodities. As of April 25, commercial contracts between U.S. exporters and the Government of Yugoslavia had been signed covering over 40 percent of the CCC credits pledged at Berne. Approximately 20 percent of the CCC commodities have already been shipped.

   As part of Berne pledge, Eximbank has agreed to remain open in Yugoslavia. There are no outstanding preliminary commitments for major new projects. Volume of new transactions under all programs in 1982 was approximately 200 million dollars. Volume in 1983 may be similar, some 100 million dollars for capital goods and some $ 100 millior

USA

In addition to this specific information, U.S. authorities point out that the U.S. government will be a net provider of funds to Yugoslavia in 1983 in excess of 200 million dollars, 95 million dollars of which will be provided outside of the Berne package. In addition, Exim remains open for business in Yugoslavia in 1983.

Mr Whittome

Office Memorandum

May 6, 1983

MEMORANDUM FOR FILES

Subject: Telephone call from Mr. Petrovic

Mr. Petrovic called this morning explaining that difficulties had been encountered by several commercial banks in the calculations of net domestic assets for each of the first three months of 1983 from the liability side. It appears that many of them did not understand the instructions for making valuation adjustments. Instructions were being reiterated and clarified, and revised data on NDA from the liability side for the first two months of the year along with figures for March would not be known with an acceptable degree of accuracy until perhaps Thursday or Friday of next week. Data received from a number of commercial banks which appeared to incorporate the appropriate valuation adjustment were cited in support of his conclusion that the final data for the entire banking system would show the performance criterion on NDA for the first quarter to have been met with a comfortable margin.

It is my impression from this conversation and from other recent discussions of the problem of alternative estimates of NDA from the asset side and the liability side that the NDA figures said to be estimated from the asset side in fact fail to incorporate sufficiently (if at all) the valuation adjustment owing to the depreciation of the dinar. If this is so it would at first glance appear that the NDA ceiling for the first quarter has been significantly undershot because banks were adhering to targets on an unadjusted basis. Also, it would follow that any final figures on NDA which are said to be calculated from the liability side would have incorporated the necessary valuation adjustments and would be significantly lower than the so-called NDA from the assets side. Consequently, it would be most unfortunate if the May drawing were delayed owing to lack of firm data on net domestic assets.

Wayne Lewis
Wayne Lewis

cc: Mr. Whittome
Mr. Mentre
Ms. Ripley
Mr. Hansen
Mr. Manison
Mr. Petersen

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

Personal

CABLE ADDRESS
INTERFUND

May 6, 1983

Dear Paul,

I and others were trying to contact you yesterday for I was under the firm impression that you would be in the office, at least for a time in the morning, and would not be leaving for Europe until the night but I was unable to make contact.

Let me run down one or two important issues which I have discussed with Ms. Ripley and Mr. Lewis today and that will need to be taken during this visit if we are going to get a sense of what should be done and what might be achieveable during the subsequent June visit and so write sensible briefing instructions. First, there is the problem posed by net domestic assets. Evidently the move from domestic credit to NDA has in itself had little effect in strengthening monetary policy. However, this should not be reconsidered at this stage unless you conclude (and I take that you won't have to) that we need to wholly recast the ceiling in order to make it workable. As you know, we have had substantial difficulties in obtaining NDA figures from the liabilities side, and technically this could have caused the drawing to be held up, or an additional waiver requested. I think we need to understand the precise reasons for the substantial discrepancy between the assets and liabilities side, and try to assure in a most tactful fashion that in future whatever definition of NDA we agree on, the communications procedure works more smoothly. We must be able to assure ourselves that adjustments are being properly made.

One element of slippage in demand management has been the drawing down of foreign exchange accounts, but it is my impression that such an injection of liquidity into the economy arising from the increased dinar value of these holdings is not picked up under our current definition of NDA because of the valuation adjustment. If this is so, what needs to be done at midyear is to clearly associate these changes in the foreign exchange accounts with the ceiling on NDA; and it should be possible to work toward an agreement in June whereby any liquidity stemming from a run down in the foreign exchange accounts is offset on a one to one basis by a reduction in liquidity that can be provided from other sources. At any rate this should be our aim. It is also clear that the NDA ceilings may need to be reconsidered in the light of the agreement which we now think we have regarding the freezing of excess revenues.

Thirdly, the agreement on the freezing of revenues made in Washington last week needs to be reconsidered in Belgrade in the light of their second thoughts and any other considerations that we have. For our part it is obviously extremely important that it be extended to cover all revenues and all public authorities, including the Federal Government.

Fourthly, a higher than expected rate of inflation must have wholly or partly undermined the changes in administered prices which were secured in December. It seem clear that the Yugoslavs cannot achieve all their goals at the same time and have therefore to choose their priorities which should surely be to make the necessary adjustments to the economy and to their external accounts; it is the inflation targets which will have to suffer anyway in the short term. I think, therefore, that we shall need to push hard in this area and your present visit provides the opportunity of taking an initial position.

Fifthly, there is the question of interest rates and surely we should seek a real positive rate. I suppose our position has to be and has to remain that the minimum rate requested by the Bank (which seems to me still to be inadequate) should apply only to the very priviledged borrowers and that no funds be made available at a lower rate. Other categories of erstwhile priviledged borrowers should surely pay a higher rate and much higher rates should be offered on the various forms of time deposits.

Sixthly, there is the question of the exchange rate and the question as to whether maintaining a monthly depreciation of 2 percentage points during the second half of the years is adequate in the light of the changes in the foreign exchange regulations that have been made at the rate of price increase that is being recorded.

The Manufacturers Hanover Trust people told me yesterday that they had been seeking to return your call but had not been successful. I therefore took up with them the question of the gold collateral. The position is that there remain difficulties both with the Kuwaiti and the French syndications. As regards to the Kuwaiti syndication, all the banks involved have apparently agreed to renounce the negative pledge clause except for the Al Bahrain Arab African Bank. It is not clear what has motivated this bank's obstinacy though it was earlier thought that it was being difficult because it had an overdue credit with the Privedna Bank of Zagreb. However, according to the National Bank, other Yugoslav banks arranged some weeks ago for the repayment of this outstanding amount. A senior representative of the Kuwaiti leader of the syndicate will be in New York next week and Manufacturers will attempt to find out the position from him. It remains vital that by one means or another the Yugoslavs seek to deal with this bank in Bahrain. Unfortunatley, I have ascertained that any change in the terms of the syndicaiton requires the unanimous consent of all the banks participating in it.

As regards the French banks, they sent a representative to Belgrade earlier next week to get the agreement of the National Bank that the last $150 million loan was "a government induced and secured credit." Manufacturers were formally asked by the National Bank of Yugoslavia for their opinion and confined themselves, in my view correctly, to saying that if this fact could be proved to the satisfaction of Peat Marwick then it would be proper to lower the base for the French banks (such a lowering would reduce the commitment of the French banks for new money by nearly $15 million). The tactic of the French banks which will presumably require some supporting evidence to be provided by the Trésor is becoming known in the market and will inevitably infuriate the other banks who will have to make up the difference. Manufacturers first tried to pretend that it would jeopardize the whole arrangement but later agreed that given the proximity of the deadline (May 20) the other banks (if the matter was not formally brought to their attention) would probably swallow their anger and make up the difference. If this is done the French banks will make their renunciation of the negative pledge unconditional which will allow the Fed to support the loan.

Another difficulty has arisen with regard to the French and German banks concerning a 5 per cent retention arrangement governing credits guaranteed by Coface and Hermes. The amounts involved seem trivial but the banks in both countries are maintaining that it is a question of principle and that the exclusion of these credits was sanctified by the Argentine precedent. The German Banks have sought to reinforce their position by refusing to provide their base figures until the matter has been settled. Once again it seems that the imminence of the deadline will force the other banks to concede the point unless they believe that it may be of material significance in some future debt arrangements.

I would be grateful if you would make sure that in your discussions with the Yugoslavs these matters are fully explored and it would also seem sensible for you to get in touch with the representatives of Peat Marwick who will presumably still be in Belgrade in order to ascertain the position. We should of course go out of our way to avoid being thought of as trying to influence Peat Marwick in any direction.

With best wishes and looking forward to seeing you on May 13.

Alan

L. A. Whittome

Mr. Mentré

Mr Whittome

2/

May 6, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - IBRD Support in 1983

I spoke with Mr. Bery at the World Bank this afternoon (Mr.Chopra was on a bank-sponsored retreat). He indicated that total disbursements for 1983 were expected to be some $250-300 million excluding any money that might be forthcoming from the SAL. This $250-300 million was associated with projects, and he thought that disbursements were no longer lagging; of this sum, $75-100 million could be distributed for "indirect import" costs, e.g., not associated with particular import expenditures, and there was a "special action program" that could be called on to speed up disbursements under certain circumstances.

Disbursements under the SAL might amount to $150 million in the second half of 1983, with the first funds becoming available in August. Mr. Bery said that he would ask Mr. Chopra to call me on Monday with information on disbursements for 1983 and thoughts as to how funding in 1983 from the World Bank could be increased or disbursements accelerated.

Mr.Manison in his memorandum of May 6 leaves unchanged from original projections IBRD disbursements in 1983 ($0.5 billion). Mr. Bery's figures suggest that the figure might well be closer to $0.4 billion.

D. Ripley

cc: Mr. Whittome
Mr. Mentre
Mr. Manison
Mr. Hansen
Mr. Lewis
Mr. Petersen

cc: DR

Am I right Mr Whittome in thinking that the answer to the problem in 84 is an almost identical package to that provided in 83? - that will be extremely difficult. Surely we shall have to seek a c/a surplus, hard though that will be.

6/8

Office Memorandum

TO : Mr. Mentre

DATE: May 6, 1983

FROM : L.G. Manison

SUBJECT : Yugoslavia - External Financing Projections

This note gives some of the assumptions and details that underlie the external financing projections in the attached table 1. The current account deficit for 1983 is now projected by the staff to amount to around $800 million compared with the original program's estimate of $500 million largely on account of lower-than-expected receipts from tourism, reflecting the sharp decline in advance bookings by foreign tourists. Tourism receipts for 1983 are now estimated to amount to $1.5 billion compared with the earlier staff estimate of $1.8 billion and the 1982 actual of $1.4 billion. The latest staff forecasts indicate that merchandise exports may be a little lower than the original staff forecasts, due in part to shortages of stocks adversely affecting export-oriented production. One recent newspaper report indicated that only 50 per cent of the planned amount of oil imports were obtained in first quarter of 1983. 1/ Despite the shortages of import supplies it is possible that imports may be compressed in the later months of 1983 if foreign exchange constraints become more severe.

While the inflow of remittances from Yugoslav workers abroad is now expected to be considerably lower than originally envisaged, drawings on foreign exchange accounts for travel abroad are expected to be commensurately lower so that net worker's remittances are still forecast to be similar to those originally projected.

The main difference between the present external accounts forecasts for 1983 and those made earlier in the year relate to disbursements on capital account from the government, banks and parts of the international financial support package for Yugoslavia. In February 1985 it was expected that $850 million-$900 million of the $1.3 billion Berne government package would be disbursed in 1983 with around $300 million being in the form of financial credits and some $550 million in supplier's credits. It is now expected that only around $200 million of government financial credits and around $350 million of supplier's credits from the Berne package will be disbursed in 1983. In February 1983 it had been expected that foreign banks would provide a total of US$2.4 billion for the purposes of refinancing maturing debt, clearing up payments arrears and as "new money." Presently, it seems to be the banks' intention to provide only a total of $2 billion; in new money ($600 million) and for refinancing existing maturities ($1.4 billion). There is also likely to be a shortfall in disbursements of loans from the World Bank of at least $100 million compared with the origianl program since only $150 million of the proposed SAL is expected to be disbursed in 1983 and because of lags in the disbursement of some other World Bank loans.

1/ Politika, April 14.

As a consequence of the revised external financing projections for 1983, it is estimated that external reserves will record a decline of around $300 million during the year instead of rising by $0.8 billion. The latter increase in reserves had been a major objective of the external financing package as formulated earlier in the year so as to help bridge the seasonally difficult first half of 1984.

Given the likelihood that Yugoslavia will end the year 1983 with very low levels of reserves and stocks of essential imported goods together with the substantial external debt servicing requirements in 1984 there would seem to be a strong need for arranging a new international financial support package for Yugoslavia in 1984. As was the case of 1983, the package for 1984 should have a buildup of external reserves as one of its major goals. In order to partly recoup the expected loss of reserves during 1983 it is felt that the target increase in reserves should be of the order of $0.8 billion-$1 billion during 1984.

In constructing forecasts for the external accounts for 1984 there would seem to be two major areas of uncertainty. Firstly, to what extent is there likely to be an improvement in the current account of the balance of payments between 1983 and 1984. In answering this question a subset of other questions need to be addressed including the beneficial effects of improved external price and cost competitiveness on merchandise and invisible exports and the adverse effects on the latter of stock shortages together with confidence effects on inflows and outflows from foreign exchange deposits held by Yugoslav nationals at domestic banks.

Secondly, there is the difficulty of assessing the likely magnitude of disbursements from supplier's credits from both the "Berne" government package in 1984 and from the normal flow of export credits outside extra-ordinary financing arrangements. For the purposes of the 1984 projections the following disbursements of supplier's credits are estimated.

	1984 Forecasts (In millions of U.S. dollars)
Supplier's credits	
From Berne package	250
Normal flow	200
New 1984 package	600
	1,050
Financial credits	
From Berne package	50
Normal flow	100
New 1984 package	
- Governments	200
- Banks	1,600
	1,950

1.6 ?

Financial credits from the banks would constitute the residual financing need and are estimated at $1.7 billion, of which a tentatively estimated $1.2 billion would be needed for principal repayments.

The delays in implementing and disbursing funds under the 1983 financial package and the seasonal financing needs in the first part of 1984 underscore the need for the early arrangement of extraordinary financial support for 1984. However, to begin these financing preparations too closely in the wake of the finalization of the 1983 package and before discernible favorable results from the 1983 program emerge could be hazardous.

cc: Mr. Whittome
Ms. Ripley
Mr. Hansen
Mr. Lewis
Mr. Petersen

Table 1. Yugoslavia: External Financing Flows vis-à-vis the Convertible Currency Area

(In billions of U.S. dollars)

	1983 Total Orig. Program	1983 Total	1983 1st half	1983 2nd half	1984	1985
		Latest staff estimates				
Use of funds						
Current account balance	-0.5	-0.8	-0.9	0.1	-0.2	1/4
Medium- and long-term maturities	-2.6	-2.6	-1.1	-1.5	-2.6	-2 1/2
Short-term maturities	-1.8	-1.8	-1.0	-0.8	-2.0	-2
Other obligations	-0.6	-0.6	-0.1	-0.5	-0.4	-1/4
	-5.5	-5.8	-3.1	-2.7	-5.2	-4 1/2
Sources of funds						
Suppliers' credits	0.7	0.5	0.2	0.3	1.1	1 1/4
World Bank, EIB	0.5	0.4	0.1	0.3	0.5	1/2
IMF	0.6	0.6	0.4	0.2	0.6	1/4
Rollover of short-term debt	1.8	1.8	1.0	0.8	2.0	2
Government financial credits	0.3	0.2	0.1	0.1	0.3	1/4
BIS	--	--	0.5	-0.5	--	--
Bank financial credits	2.4	2.0	0.8	1.2	~~1.2~~ +0.3 1.6	3/4
	6.3	5.5	3.1	2.4	5.7	5
Change in reserves	0.8	-0.3	--	-0.3	~~0.5~~ 0.9	1/2
Memorandum item						
Interest payments	2.1	2.1	0.9	1.2	2.2	1.9

Sources: National Bank of Yugoslavia; and staff estimates.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

CONFIDENTIAL

May 5, 1983

Mr. Joze Florjancic
Federal Secretary for Finance
Federal Secretariat for Finance
Belgrade, Yugoslavia

Dear Mr. Secretary,

I thought it might be helpful to convey to you in more detail the areas of concern which we discussed during our recent meetings in Washington. As was agreed then, there has been some slippage in demand management policies from the program you adopted at the turn of the year. What has made the position more serious is that this slippage has taken place against the background of a more difficult external position than had been earlier foreseen because of a shortfall in actual and prospective capital account receipts, but also because of some weakness in current receipts. I see no escape from the conclusion that there is an urgent need for a strengthening of policies, not only to bring developments in domestic demand back into line with the original program, but also to secure the larger and more rapid adjustment in the current external balance that is now essential given the lower-than-expected inflows of capital.

On the domestic side, real consumption seems not to have fallen to the extent projected in the annual plan resolution: despite sharp declines in real personal incomes, private consumption has only declined marginally and general and collective consumption have been higher than planned. This must have had adverse consequences for the current account, notwithstanding the foreign exchange constraint, and must also certainly have increased domestic inflationary pressures. The rate of inflation, particularly as measured by the cost of living, is higher than expected and has offset to a large extent both the benefits sought through the rise in interest rates and through the agreed rise in administered prices of certain important commodities.

On the external side, the drastic reduction in imports from the convertible currency area has been partly compensated by increased imports from the nonconvertible currency area, and exports formerly destined for this area have also been diverted. But how long such developments can be sustained, especially in view of the low volume of stocks of imported goods, is a question mark. Tourism receipts appear to have been bolstered by transitory factors in the initial months of 1983, but the outlook for the year as a whole, given the decline in advance bookings, seems much less promising than we had hoped. The inflow of workers' remittances remains weak, and there seems--if the reports we get from banks are accurate--to have been repayment of bank credits even though a standstill had been agreed. Finally, the international financial support package for Yugoslavia is not of the quality we had hoped and worked for. Some of the suppliers' credits being offered to Yugoslavia under the Berne agreement cannot now be fully used since they are restricted to the purchase of investment goods, and a certain portion of the disbursements under the Berne agreement may not take place in 1983. In addition, difficulties have still to be overcome before the second BIS tranche is released. Important progress has been made by the banks, but again the timing of disbursements is not fully certain.

In terms of the specific restrictive measures of demand management that may be needed, we strongly believe that actions in the fiscal policy area would be the most timely and effective in order to achieve the rapid compression of domestic demand that is necessary. You have recognized this already as is shown by your efforts to freeze excess revenues of the public sector in special accounts with the National Bank, but we would strongly urge that you go further and amend the March 31, 1983 legislation so as to sterilize excess revenues on a monthly basis beginning with the revenue outturn for April 1983. We hope also that the coverage of the revenues under the proposed limits can be expanded so as to be extremely comprehensive. The exclusion of revenues for personal incomes payments from the agreed limits much constrains the effectiveness of these limits. Indeed, if significant exemptions were to continue to be allowed, there would be a great danger that the desired restraint would not be realized. It would also surely be wise to buy time by introducing a solidarity loan amounting to a certain proportion of personal income and bearing a satisfactory interest rate; it might be made repayable from 1985.

A deceleration in the rate of growth of nominal personal incomes has been achieved, but we worry about the threat of a continued wage-price spiral. Given the present strong inflationary pressures, a resurgence of rapid growth of nominal personal incomes could occur. You may, therefore, wish to consider implementing immediately the draft proposal establishing a maximum rate of growth for nominal personal incomes over the remainder of the year. It might be best if this limitation were to be applied to personal incomes per employee rather than the wage bill paid by enterprises, for both economic and administrative considerations. Rises in incomes would have to be carefully monitored, with powers to prevent excesses.

The ceilings on net domestic assets on the banking system are being observed, but it is our impression that the traditional "safety valve"--interenterprise credits--has again limited the effectiveness of monetary policy in constraining the rise in prices and nominal incomes. In particular, the very rapid increase in promissory notes issued between enterprises is allowing enterprises to avoid adjusting their behavior in line with your objectives. Seemingly, a speedy implementation of the amendment to the Law on the Public Auditing Service requiring enterprises to settle obligations to creditors before making personal incomes payments payments has become of the utmost importance. We worry also that a number of recent measures that you have introduced to reduce enterprise losses, such as the provision of debt relief, could, in a sense, be counterproductive in improving enterprise efficiency and financial discipline since they seem to reduce the incentive to avoid future losses.

Given that your original inflation target of 20 per cent, which underlaid the agreed adjustment in interest rates, will be substantially exceeded, there is an obvious need for a further increase in the level of nominal interest rates. This is a matter which we have exhaustively discussed in the past. But negative real interest rates must run counter to your policies of reducing real domestic demand and give rise to a misallocation of capital resources. This point also raises the appropriateness of the present relationship between the real rate of return on deposits denominated in dinars as opposed to deposits denominated in foreign currency.

As you have already decided, the scarcity of foreign exchange means that only imports that offer the highest prospects of return, primarily in the form of export earnings, but also import substitution for essential commodities, should be financed. We have queried before whether the amendments that have been made to the foreign exchange law provide for the optimal treatment of export earnings either in terms of providing incentives for exporters or of ensuring the allocation of foreign exchange for essential imports. This, of course, brings me back to another subject which we have much discussed, namely, the exchange rate, but this I leave for discussion in June, when, as promised, we will re-evaluate together its appropriateness.

There remains the question of your medium-term external liquidity needs and the external debt servicing requirements over the period 1984 to 1986. The current prospects for building up reserves during 1983 as originally planned do not seem to us to be favorable. Accordingly, the chances of surviving the heavy external payments pressures in the first part of 1984, which is a seasonally difficult period, without widespread payments delays and disruptions of current production are not good without further financial assistance. If this is right, then an early but very cautious approach to a few friendly governments and to the International Coordinating Committee--perhaps in September--to discuss the possibilities for an international financial support package in 1984 should be considered. It would surely be helpful if a detailed inquiry could now be initiated in confidence on the credits falling due in 1984 and 1985. However, I must stress that our experience indicates that the attitude of governments and banks will be heavily influenced by their assessment of the progress that has been made in achieving the targets you have set yourselves. It is for this reason also that I think it very important to move ahead decisively in the areas outlined in previous paragraphs.

There have been several significant successes in economic policy, but unfortunately more is needed to ensure economic independence and reduce reliance on foreign credits over the medium term. Separately, more is also needed in the short term to close the financing gap that now seems likely to emerge in 1983. I realize that I have covered a large number of points to which you and your colleagues will have already given much thought and I apologize for, in a sense, duplicating your own efforts. But this letter may prove useful in view of the scheduled staff visits and the forthcoming parliamentary deliberations.

Yours sincerely,

L. A. Whittome

file Romania
Yugoslavia
Quota
France
Portugal
Poland

The Managing Director May 5, 1983

L.A. Whittome

Visit to New York

Harry Taylor gave a lunch for Minister Gigea of Romania today to which he invited representatives of the main New York banks, the Ex-Im, and myself; afterward I visited Sam Cross at the Fed. The following is a brief summary of the main points of interest:

(i) Romania: the bankers seemed impressed by the turn round in the current account position (it improved by the equivalent of 6 per cent of GNP between 1980 and 1982); they complained that the turn round was primarily due to a cut in imports which was more than perverse of them given that their withdrawal of credit had forced such an outturn; they were pleased by the way the 1983 rescheduling had been processed and were satisfied with the amount of information now available to them; they made all the right noises about interest rates, prices and the exchange rate;

(ii) Yugoslavia: negative pledges covering gold had been renounced by all banks except a French bank syndication and a Kuwait bank syndication. The French banks are still trying to trade a reduced commitment for new money for a renunciation of their negative pledge clause. The latest step in this long dispute is that the Societé Generale, as syndicate leader, is trying to persuade the Yugoslav National Bank to classify the last $150 million loan as a "Government induced and secured credit". This would take it out of their base for the French banks and so reduce their commitment to provide new money by some $15 million. For such a classification the Trésor would have to co-operate by providing the necessary certification. The banks of other countries are very irritated but given the deadline of May 20 may swallow and accept. All the banks in the Kuwaiti syndicate have waived their rights except for the Al Bahrein Arab and African Bank in Bahrain. Unfortunately this particular syndication requires the unanimous agreement of all participating banks for any modification. Allegedly the Bahrain bank has been repaid a small debt which it was owed by the Privedna Bank of Zagreb (which is in arrears on many payments) but has still not waived its rights.

(iii) Chile: the banks and the Fed thought that Chile was "on track" and were grateful to you and Mr. Dale for agreeing that he should go to New York tomorrow and to London next week;

(iv) Quota legislation: the banks (and Sam Cross) were clearly worried about the amendment on bank regulation that had now been drafted by the House, whilst that drafted by the Senate was regarded as acceptable. Harry Taylor said that an amendment on the lines of that proposed by the House would "freeze" the regionals out of new international lending;

(v) Brazil: there was much worrying both about a perceived shortage in the financing and also as to whether or not the stabilization measures taken by Brazil were adequate;

(vi) France: apparently the French Ministry of Justice has drafted legislation that could relieve the successor companies of bankrupt national companies of certain obligations that the bankrupt company had contracted with foreign creditors. I was told that the Trésor had realized that this could affect foreign borrowing by French companies but had not reacted strongly. I will meet Camdessus at the International Monetary Conference in Brussels in mid-May and I thought that I should mention the reaction I had heard to him then;

(vii) Portugal: Portugal had sought a $400 million syndication in New York. This had now been cut back to $300 million and was moving very slowly pending clarification of the political situation. Cross said that the $400 million BIS loan to Porugal was "very short" implying that repayment would be due by end-May; it is difficult to see now that the Portuguese will be able to meet this obligation;

(viii) Poland: the Poles have now suggested that repayment of their debt be scheduled over a 19 year period and with reduced interest rate changes. Harry Taylor publicly asked Gigea to take up this matter with the Poles for it was "completely unacceptable". I presume he knew that Gigea could have no influence on the Poles.

cc: The Deputy Managing Director
Mr. Carter

IMF OFFICIAL CABLE

RECEIVED
1983 MAY -4 PM 2:29
CABLE ROOM

~~537566~~

RCV: @1IM/1.01064 LINE: 1

1411 EST

440385 FUND UI

11868 NARBAN YU 4.5.1983 NR 12612 H20.10

RECEIVED I.M.F.
1983 MAY -4 PM 2:31
CABLE ROOM

INTERFUND WASHINGTON D.C.

FOR MR. MANISON EUROPEAN DEPARTMENT.
REFERENCE YOUR REQUEST FROM LAST WEEK ON DATA REPORTING:
1/ FINAL DATA ON NDA FOR THE FIRST THREE MONTHS OF 1983, CALCULATED THROUGH LIABILITY SIDE NOT YET AVAILABLE. NDA POSITION FOR MARCH 1983 CALCULATED THROUGH ASSETS SIDE AMOUNTS TO 2,773,8 BILLION OF DINARS /PRELIMINARY/
2/ PUBLIC SECTOR REVENUES INCLUDING REVENUES FOR PAYMENTS HAVING THE CHARACTERISTICS OF PERSONAL INCOME PAYMENTS IN BILLION OF DINARS FOR JANUARY, FEBRUARY, AND MARCH 1982, RESPECTIVELY WERE 54,1, 60.6, AND 76.5 AND FOR JANUARY, FEBRUARY, AND MARCH 1983, RESPECTIVELY, WERE 71.5, 77.4, AND 89.9.
3/ MONTHLY FIGURES ON CHANGES IN EXCHANGE RATES FOR THE YUGOSLAV DINAR AND PRICE COMPETITIVENESS ACCORDING TO THE AGREEMENT REACHED ON THE TECHNICAL MEETING HELD ON APRIL 20, 1983. FOR APRIL 1983.- END OF JANUARY 1983= 100-

537557

A/ EXCHANGERATES FOR THE''BASKET'' OF CURRENCIES AGAINST

YUGOSLAV DINAR

DM 3294,1868
LIT 5,5568
USDOLL 81,1360
ASCH 468,4526
FF 1098,8454
LSTG 126,6904
SFRS 3934,0277
SKR 1083,1131
HFL 2927,7763
BFRS/C 165,4317
YEN 34,1489 B/ NOMINAL EFFECTIVE EXCHANGE RATE: 118,81
C/ INDEX OF YUGOSLAV PRODUCER PRICES OF INDUSTRIAL PRODUCTS: 104,3
D/ RELATIVE PRODUCER PRICES: 103,9
E/ REAL EFFECTIVE EXCHANGE RATE : 87,5

4. LETTER TO MR. DE LAROSIERE HAS BEEN SIGNED BY MR.MAKIC AND MR.FLORJANCIC TODAY WITH:
- THE FIRST PARAGRAPH READING AS FOLLOWS:'' WE ARE WRITING TO YOU TO ASSURE YOU THAT THE SPECIFIC PEFORMANCE CRITERIA AGR EED

IMF OFFICIAL CABLE

UNDER THE STAND-BY ARRANGEMENT HAVE BEEN MET BUT TO SEEK A
WAIVER OF THE PERFORMANCE CRITERIA SET OUT IN PARAGRAPH 3.C.
/II/ IN THE STANDBY ARRANGEMENT,
- THE SECOND PARAGRAPH READING AS FOLLOWS:''

PURSUANT TO PARAGRAPH 4 OF THE LETTER OF INTENT
OF DECEMBER 30, 1982 AS SUPPLAMENTED BY PARAGRAPH 3 OF THE LE-
TTER DATED FEBRUARY 18, 1983, PUBLIC SECTOR REVENUES AND REVENUES
FOR COLLECTIVE CONSUMPTION, INCLUDING REVENUES FOR PAYMENTS HAVING
THE CHARACTERISTICS OF PERSONAL INCOME PAYMENTS, HAVE INCREASED
WHEN COMPARED WITH THE SAME PERIOD OF 1982 BY 32 PER CENT IN JANU-
ARY, BY 28 PERCENT IN FEBRUARY, WHICH MEANS 30.0 PERCENT FOR THE
FIRST TWO MONTHS AND BY 17 PR CENT IN MARCH WHICH MEANS 25 PER
CENT IN THE FIRST THREE MONTHS. EXCESS REVEN
UES OF THE PUBLIC
SECTOR AND REVENUES FOR COLLECTIVE CONSUMPTION REGISTERED IN THE
FIRST QUARTER WILL BE FROZEN, EFFECTIVE MAY 15, IN LINE WITH OUR
COMMITMENT UNDER THE LETTER OF INTENT''.

- THE AMENDMENTS IN THE THIRD PARAGRAPH:
A/ IN THE FIRST SENTENCE THE WORD ''AGAIN'' SHOULD BE DELETED,
B/ IN THE SECOND SENTENCE BEFORE ''21 PER CENT'' A WORD ''ABOUT'' WAS INSERTED.

REGARDS, HOFMANN
NARODNABANKA JUGOSLAVIJE BEOGRAD

COLL: - THE FIRST PARAGRAPH RADING AS FOLLOWS'
:'' WE ARE WRITING
TO YOU TO ASSURE YOU THAT THE SPECIFIC PERFORMANCE CRITERIA AGREED
UNDER THE STAND-BY ARRANGEMENT HAVE BEEN MET BUT TO SEEK A ....

440385 FUND UI

G

REPLY VIA ITT

2

Office Memorandum

MAY 4 1983

Nor'd 4.83

TO : The Managing Director

DATE: May 4, 1983

FROM : L.A. Whittome LAW

SUBJECT : Yugoslavia

We have just received confirmation from the Yugoslav authorities (cable attached) that the specific performance criteria under the third year of the stand-by arrangement were met and that Governor Makic and Mr. Florjancic had signed the letter with minor modifications. We are therefore proceeding with the issuance of the paper.

Attachment

cc: The Deputy Managing Director
Mr. Carter
Mr. Mentré
CED

IMF OFFICIAL CABLE

RECEIVED

1983 MAY -4 PM 2:29

CABLE ROOM

~~537568~~

RCV: @1IM/1.01064 LINE: 1

1411 EST

440385 FUND UI

11868 NARBAN YU 4.5.1983 NR 12612 H20.10

INTERFUND WASHINGTON D.C.

RECEIVED I.M.F.

1983 MAY -4 PM 2:31

CABLE ROOM

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REFERENCE YOUR REQUEST FROM LAST WEEK ON DATA REPORTING:

1/ FINAL DATA ON NDA FOR THE FIRST THREE MONTHS OF 1983, CALCULATED THROUGH LIABILITY SIDE NOT YET AVAILABLE. NDA POSITION FOR MARCH 1983 CALCULATED THROUGH ASSETS SIDE AMOUNTS TO 2,773,8 BILLION OF DINARS /PRELIMINARY/

2/ PUBLIC SECTOR REVENUES INCLUDING REVENUES FOR PAYMENTS HAVING THE CHARACTERISTICS OF PERSONAL INCOME PAYMENTS IN BILLION OF DINARS FOR JANUARY, FEBRUARY, AND MARCH 1982, RESPECTIVELY WERE 54,1, 60.6, AND 76.5 AND FOR JANUARY, FEBRUARY, AND MARCH 1983, RESPECTIVELY, WERE 71.5, 77.4, AND 89.9.

537557

3/ MONTHLY FIGURES ON CHANGES IN EXCHANGE RATES FOR THE YUGOSLAV DINAR AND PRICE COMPETITIVENESS ACCORDING TO THE AGREEMENT REACHED ON THE TECHNICAL MEETING HELD ON APRIL 20, 1983. FOR APRIL 1983.- END OF JANUARY 1983= 100-

A/ EXCHANGERATES FOR THE''BASKET'' OF CURRENCIES AGAINST YUGOSLAV DINAR

DM 3294,1868
LIT 5,5568
USDOLL 81,1360
ASCH 468,4526
FF 1098,8454
LSTG 126,6904
SFRS 3934,0277
SKR 1083,1131
HFL 2927,7763
BFRS/C 165,4317
YEN 34,1489 B/ NOMINAL EFFECTIVE EXCHANGE RATE: 118,81
C/ INDEX OF YUGOSLAV PRODUCER PRICES OF INDUSTRIAL PRODUCTS: 104,3
D/ RELATIVE PRODUCER PRICES: 103,9
E/ REAL EFFECTIVE EXCHANGE RATE : 87,5

4. LETTER TO MR. DE LAROSIERE HAS BEEN SIGNED BY MR. R. MAKIC AND MR. FLORJANCIC TODAY WITH:
- THE FIRST PARAGRAPH READING AS FOLLOWS:'' WE ARE WRITING TO YOU TO ASSURE YOU THAT THE SPECIFIC PEFORMANCE CRITERIA AG EED

IMF OFFICIAL CABLE

UNDER THE STAND-BY ARRANGEMENT HAVE BEEN MET BUT TO SEEK A WAIVER OF THE PERFORMANCE CRITERIA SET OUT IN PARAGRAPH 3.C. /II/ IN THE STANDBY ARRANGEMENT,
- THE SECOND PARAGRAPH READING AS FOLLOWS:''

PURSUANT TO PARAGRAPH 4 OF THE LETTER OF INTENT OF DECEMBER 30, 1982 AS SUPPLAMENTED BY PARAGRAPH 3 OF THE LETTER DATED FEBRUARY 18, 1983, PUBLIC SECTOR REVENUES AND REVENUES FOR COLLECTIVE CONSUMPTION, INCLUDING REVENUES FOR PAYMENTS HAVING THE CHARACTERISTICS OF PERSONAL INCOME PAYMENTS, HAVE INCREASED WHEN COMPARED WITH THE SAME PERIOD OF 1982 BY 32 PER CENT IN JANUARY, BY 28 PERCENT IN FEBRUARY, WHICH MEANS 30.0 PERCENT FOR THE FIRST TWO MONTHS AND BY 17 PR CENT IN MARCH WHICH MEANS 25 PER CENT IN THE FIRST THREE MONTHS. EXCESS REVEN UES OF THE PUBLIC SECTOR AND REVENUES FOR COLLECTIVE CONSUMPTION REGISTERED IN THE FIRST QUARTER WILL BE FROZEN, EFFECTIVE MAY 15, IN LINE WITH OUR COMMITMENT UNDER THE LETTER OF INTENT''.

- THE AMENDMENTS IN THE THIRD PARAGRAPH:
  A/ IN THE FIRST SENTENCE THE WORD ''AGAIN'' SHOULD BE DELETED,
  B/ IN THE SECOND SENTENCE BEFORE ''21 PER CENT'' A WORD ''ABOUT'' WAS INSERTED.

REGARDS, HOFMANN
NARODNABANKA JUGOSLAVIJE BEOGRAD

COLL: - THE FIRST PARAGRAPH RADING AS FOLLOWS'
:'' WE ARE WRITING
TO YOU TO ASSURE YOU THAT THE SPECIFIC PERFORMANCE CRITERIA AGREED UNDER THE STAND-BY ARRANGEMENT HAVE BEEN MET BUT TO SEEK A ....

440385 FUND UI

G

REPLY VIA ITT

The Managing Director May 4, 1983

L.A. Whittome

Yugoslavia

You queried on the memorandum of May 3 on Yugoslavia whether we have concrete evidence that the Yugoslav authorities have taken action to sterilize excess government revenues collected during the first quarter of 1983. We do not have such evidence. Final revenue data for March 1983 are expected to be telexed to the Fund today. If these data exceeded the specified limits, the authorities must, under the legislation adopted on March 31, freeze any excess. If such revenues are indeed excessive, they would have to be placed in a special blocked account with the National Bank within ten days and the team going out next week will establish with the authorities procedures for monitoring this blocking.

If the findings of the midyear review mission to Yugoslavia confirm that slippages in demand management policies continue to pose difficulties, then a major tightening of fiscal policies will be sought immediately along with other measures to contain domestic demand.

cc: The Deputy Managing Director
Mr. Carter
Mr. Mentre
Ms. Ripley

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THIS BOX

MRS. G. HOFMANN
DIRECTOR
NATIONAL BANK OF YUGOSLAVIA
BELGRADE, YUGOSLAVIA

MARK XX FOR CODE
(______) CODE

DISTRIBUTION

DO NOT TYPE HERE

START TEXT HERE

FOR PURPOSES OF JUNE MISSION WE WOULD APPRECIATE IF NATIONAL BANK CAN RESERVE AT MOSKVA HOTEL ONE SUITE AND FIVE ROOMS FROM MAY 29 TO JUNE 17, ONE ROOM FROM JUNE 5 TO JUNE 17, AND ONE SUITE FOR MR. WHITTOME FROM JUNE 5 TO JUNE 12. DEPENDING ON PROGRESS MADE MISSION MAY LEAVE BELGRADE BEFORE JUNE 17.

BEST REGARDS.

MENTRE

INTERFUND

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L G. Manison EXT.: 73726 DEPT EUR DATE May 4, 1983

AUTHORIZED BY NAME (TYPE): L.A. Whittome AUTHORIZED BY NAME (TYPE):

(**) TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

FOR CABLE ROOM USE ONLY

No. of words ______ Log ______ Route ______ Operator ______

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC 48
10-21-81

MAY 4 1983

Office Memorandum

TO : The Managing Director

DATE: May 4, 1983

FROM : L.A. Whittome

SUBJECT : Yugoslavia

Thank you May 5. 83

You queried on the memorandum of May 3 on Yugoslavia whether we have concrete evidence that the Yugoslav authorities have taken action to sterilize excess government revenues collected during the first quarter of 1983. We do not have such evidence. Final revenue data for March 1983 are expected to be telexed to the Fund today. If these data exceeded the specified limits, the authorities must, under the legislation adopted on March 31, freeze any excess. If such revenues are indeed excessive, they would have to be placed in a special blocked account with the National Bank within ten days and the team going out next week will establish with the authorities procedures for monitoring this blocking.

If the findings of the midyear review mission to Yugoslavia confirm that slippages in demand management policies continue to pose difficulties, then a major tightening of fiscal policies will be sought immediately along with other measures to contain domestic demand.

cc: The Deputy Managing Director
Mr. Carter
Mr. Mentre
Ms. Ripley

Office Memorandum

TO : Mr. Whittome

DATE: May 3, 1983

FROM : W. Lewis

SUBJECT : Yugoslavia--Access to Fund Resources

In my memo to you of February 18, 1983 I indicated that a stand-by arrangement with Yugoslavia for 1984 could under present rules be at most SDR 350-390 million, depending on the timing of the final purchase in 1984. This was based on my understanding that Fund holdings of Yugoslav dinars, excluding amounts purchased and outstanding under the CFF and oil facility, were permitted to be no more than 600 per cent of quota. Mr. Hansen has pointed out that the 600 per cent limit applies to outstanding purchases, or use of Fund credit (again, excluding the CFF and oil facility) rather than to Fund holdings of the member's currency. The difference between these two amounts is equal to the member's quota less its reserve position in the Fund.

As shown in the attached table, the 600 per cent limit calculated in this way is not the binding constraint in 1984. Rather, the annual limit on purchases of 150 per cent of quota is, so that a one-year stand-by in 1984 could be up to SDR 623 million. A stand-by in 1984 in the amount of SDR 620 million would imply a net increase in the use of Fund credit of SDR 351 million; these are the figures of SDR 0.6 billion in gross terms and SDR 0.4 billion in net terms which were mentioned last Friday in response to Mr. Florjančič's question about possible recourse to Fund credit in 1984.

Under existing rules for access to Fund resources, there could also be a stand-by for SDR 436 million in 1985. Provided that the final purchase in 1985 were to be made after November 16, outstanding purchases of dinars would remain below the limit of 600 per cent of quota. If the final purchase of 1985 were to be made after December 22, 1985, the total stand-by for the year could amount to SDR 489 million or, alternatively, there could be a two-year stand-by in 1984-85 with annual purchases of SDR 554 million, the same as in the present three-year stand-by.

Once guidelines on access to Fund resources are revised in conjunction with the ratification of quota increases, the increase in Yugoslavia's potential for drawing on the Fund can be readily calculated. For example, if there were a limit as of 1984 on annual purchases of 115 per cent of the new quota, and a limit on cumulative purchases oustanding of four times that amount, or 460 per cent of quota, Yugoslavia's new quota of SDR 613 million would permit one-year stand-by arrangements in the amount of some SDR 700 million in both 1984 and 1985. However, in this example all but SDR 36 million of Yugoslavia's borrowing potential from the Fund (in net terms) would have been exhausted by the end of 1985.

Attachment

cc: Mr. Mentré
Ms. Ripley
Mr. Hansen
Mr. Manison
Mr. Petersen

Yugoslavia: Use of Fund Credit and Fund Holdings of Dinars 1/

	Fund Holdings of Dinars	Use of Fund Credit: All purchases	Use of Fund Credit: Excluding CFF and oil facility	Use of Fund Credit
	(In millions of SDRs)			(Per cent of quota)
Position, December 31, 1982	2,002.5	1,590.3	1,344.1	323.5
Purchases scheduled in 1983		554.0	554.0	133.3
Repurchases scheduled in 1983 (-)		-169.2	-44.2	
Net increase in Fund credit		384.8	509.8	
Position, December 31, 1983	2,387.3	1,975.1	1,853.9	446.2
Possible purchase in 1984		620.0	620.0	149.2
Repurchase scheduled in 1984 (-)		-269.3	-165.4	
Net increase in Fund credit		350.7	454.6	
Position, December 31, 1984	2,738.0	2,325.8	2,308.5	555.6
Possible purchases in 1985 2/		436.0	436.0	104.9
Scheduled purchases, January 1-November 16, 1985(-)		-269.3	-252.0	
Position, November 17, 1985	2,904.7	2,492.5	2,492.5	599.9
Scheduled repurchases, November 18-December 31, 1985(-)		-52.8	-52.8	
Net increase in Fund credit in 1985		113.9	131.2	
Position, December 31, 1985	2,851.9	2,439.7	2,439.7	587.2

1/ Assuming the existing quota of SDR 415.5 million, an unchanged reserve position in the Fund, and unchanged guidelines on enlarged access to Fund resources.

2/ Assuming that the final purchase for 1985 is made after November 16, 1985, and that the 600 per cent ceiling on use of Fund credit is observed throughout the year.

Office Memorandum

MAY 3 1983

May 3, 1983

TO: The Managing Director

FROM: L.A. Whittome /LAW

SUBJECT: Yugoslavia - Review of Economic Performance and External Finance

After your meeting with the Minister of Finance we held extensive talks with the Yugoslav representatives about the policy measures that had been implemented, or were foreseen, to increase fiscal constraint and financial discipline, as well as the additional measures that might be considered at the time of the midyear review. We also received preliminary data indicating that Yugoslavia had satisfied the specific performance criteria for the first quarter of 1983 set down in the third year of the stand-by arrangement.

The May 16 drawing is imminent, and for it to proceed on time it is necesary both that a waiver be obtained from the Board for the introduction of the multiple currency practice involving payments by foreign tourists and that a finding be made that sufficient progress has been attained in firming up the bank component of the financing package. We would propose to submit to the Board the attached paper reporting on the present economic situation in Yugoslavia. It points out that the specific performance criteria have been met and proposes that the Board give a waiver for the multiple currency practice in view of the difficult external situation and the Yugoslav intention to remove the restriction as soon as conditions permit. This paper has been seen by ETR, Legal, and Treasurer's as well as Research. In our view, the paper would best be issued tomorrow (the 4th) after final confirmation of the data showing compliance with the performance criteria has been received by telex from Belgrade, and also confirmation that both the Minister of Finance and Governor of the National Bank have signed the attached letter which supplements the letter of intent in the field of fiscal policy actions. (The data sheet will also be revised tomorrow upon the receipt of the new data.)

(have you received satisfaction on the "sterility" procedures for return Sept. measures page 2 of the letter ... looks a little vague ... we will certainly need ...)

The Board decision could best be taken on a lapse-of-time basis, effective May 9, since the Yugoslav situation will be extensively reviewed at midyear; the review mission will start work in Belgrade on May 30, and the Board meeting is tentatively scheduled for July 25. If an Executive Director wishes to put this paper on the agenda, it would still be possible to have the Board meeting on May 9, in time to allow the drawing to take place on May 16.

At the midyear review we would, as you warned, be seeking further action at least in the field of interest rates and financial and fiscal policies, as well as seeking assurance that the foreign exchange law and the exchange rate policy pursued provide adequate incentive for exporters. However, it is clear from our most recent but still tentative cash flow projections that the program for 1983 is very tight. The Yugoslav authorities will be faced at the beginning of 1984 with a seasonally unfavorable half year; substantial repayments of principal falling due; and levels of reserves and imported stocks that are precariously low. These most recent projections also foresee a slightly worse current account outturn for 1983 than had been projected in January. However, it is primarily because the quality of the international financial support package and the pace of disbursements is not all that we had hoped and worked for and that the external constraints are now more severe than originally expected. Indeed, the successful finalization of the bank package in June may still require additional efforts to convince a few important recalcitrant commercial banks to participate fully in providing new money to Yugoslavia: in particular there is an as yet unresolved difficulty with the French banks because of their wish to exclude from the calculations allocating responsibility for providing new money those loans that they were urged to extend by the French Government. This has been taken up with the Trésor and the Bank of France by the United States as well as ourselves.

Following the signing of the banks' package at midyear we would propose to start working toward the financial support package for Yugoslavia that will certainly be needed in 1984. To this end, we will keep in close contact with the International Coordinating Committee; Manufacturers Hanover, as well as the U.S. Treasury, are aware that further action by the banks will be needed, at least in 1984 and perhaps even in 1985. However, all agree that it could be counterproductive to begin talks on the subject ~~much activity by ourselves~~ before the June signing by the banks. In the late summer we would also envisage initiating discussions with sympathetic governments to see what aid might be forthcoming in 1984, the extent to which this aid could be brought forward into 1983 in case of need, and which governments might be willing to take a lead in the formation of the package. The Yugoslavs are also very much aware of the dangers for 1983, and their continuing need for support in 1984/85. We have already asked them to prepare data for the coming years to facilitate the putting in place of the support program for 1984.

Don't give them too much sense of security. There [illegible] should be [illegible] against the package [illegible] tangible [illegible]

Attachments

cc: The Deputy Managing Director
Mr. Mentre
Ms. Ripley
Mr. Carter

Table 1. Yugoslavia: External Financing Flows vis-à-vis the Convertible Currency Area

(In billions of U.S. dollars)

	1983 Total Orig. Program	1983 Total	1983 1st half	1983 2nd half	1984	1985
		Latest staff estimates				
Use of funds						
Current account balance	-0.5	-0.8	-0.9	0.1	-0.2	1/4
Medium- and long-term maturities	-2.6	-2.6	-1.1	-1.5	-2.6	-2 1/2
Short-term maturities	-1.8	-1.8	-1.0	-0.8	-2.0	-2
Other obligations	-0.6	-0.6	-0.1	-0.5	-0.4	-1/4
	-5.5	-5.8	-3.1	-2.7	-5.2	-4 1/2
Sources of funds						
Suppliers' credits	0.7	0.5	0.2	0.3	1.1	1 1/4
World Bank, EIB	0.5	0.4	0.1	0.3	0.5	1/2
IMF	0.6	0.6	0.4	0.2	0.6	1/4
Rollover of short-term debt	1.8	1.8	1.0	0.8	2.0	2
Government financial credits	0.3	0.2	0.1	0.1	0.3	1/4
BIS	--	--	0.5	-0.5	--	--
Bank financial credits	2.4	2.0	0.8	1.2	1.2	3/4
	6.3	5.5	3.1	2.4	5.7	5
Change in reserves	0.8	-0.3	--	-0.3	0.5	1/2
Memorandum item						
Interest payments	2.1	2.1	0.9	1.2	2.2	1.9

Sources: National Bank of Yugoslavia; and staff estimates.

DRAFT
5/3/83:6

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Review of Economic Performance and External Financing Package

Prepared by the European Department
(In consultation with other Departments)

Approved by L. A. Whittome and Subimal Mookerjee

May .., 1983

1. Introduction

On March 11, 1983, Executive Directors approved the program for the third year of the current stand-by arrangement with Yugoslavia. A first purchase for an amount of SDR 175 million was made on March 15. The second purchase for an amount of SDR 150 million is to take place after May 15, providing Yugoslavia has met the performance criteria set down in the stand-by arrangement, and that satisfactory progress has been made in the implementation of the international financial support package for Yugoslavia. The staff visited Belgrade from April 18 to 22, 1983. The mission comprised Mr. Mentré, Ms. Ripley, Mr. Manison, Mr. Lewis (all EUR), Mr. Brimble (STAT), and Mr. Petersen (ETR), and, as secretary, Mrs. Watson (ETR). This paper reports on the findings and results of this recent staff visit to Yugoslavia and on the progress in putting together the international financial support package.

2. Recent economic developments and prospects

Data on economic developments in the first quarter of 1983 are incomplete. However, on the basis of the limited data available, it can be discerned that real domestic demand did not decline to the extent planned, while inflation was higher than expected. These developments occurred against the background of more severe external constraints than expected, arising largely from a shortfall in receipts on capital account. Both personal and public consumption were higher than planned in the initial months of 1983. Although real wages in the socialized sector recorded a marked fall of 7-8 per cent compared with one year earlier, domestic purchasing power seems to have been sustained by factors such as the high level of incomes in the agricultural sector in 1982 and drawings on the large volume of foreign exchange accounts held by the household sector. In the first quarter of 1983, preliminary figures indicate that total public sector revenues were 25 per cent above their level in the first quarter of 1982. In the three months to March 1983, domestic prices rose at a faster rate than expected even after taking into account the effects of the depreciation of the dinar and of officially administered price changes. In the 12 months to March 1983 the retail price and cost of living indices rose by 32 per cent and 36 per cent, respectively. Further substantial price increases are expected to have occurred in April 1983.

On the external side, the trade deficit with the convertible currency area was considerably reduced in the first quarter of 1983, due to both a substantial increase in export shipments and to a large cutback in imports. These developments reflected, inter alia, a shift in exports from the nonconvertible to the convertible currency area, and considerably higher raw material and oil imports from the U.S.S.R. Low stocks of imported goods, which may hinder export-oriented production, together with a sharp decline in advance tourist bookings and uncertainties with respect to remittances from Yugoslav workers abroad, could adversely affect receipts on the current account of the balance of payments in the coming months. On the other hand, the more active exchange rate policy being pursued by the authorities appears to be promoting the faster growth of exports to the convertible currency area. During the first quarter of 1983, there was little change in the level of gross external reserves of the National Bank and the commercial banks, with their level remaining at US$1.7 billion.

3. International financial package

The main participants in the international financial support package for Yugoslavia--representatives of the 15 countries who pledged assistance at the January 1983 Berne meetings, representatives of the International Coordinating Committee (ICC) of the commercial banks providing financial support to Yugoslavia, and representatives of the IMF--met with Yugoslav representatives in Zurich on April 16, 1983 to discuss progress in the implementation of the financial package. A number of procedural problems relating to coordination between governments and banks in executing their elements of the package were identified and resolved at the Zurich meeting. There have been some problems in finalizing bilateral agreements with certain countries, in part because they are offering suppliers' credits for investment goods which Yugoslavia does not now need to import. Accordingly, it is possible that a part of the intergovernment financial package will not be disbursed in 1983.

The Zurich meeting indicated that the banks are making encouraging progress in putting together their part of the package, though delays have been experienced here also. The reconciliation of external debt data between creditors and debtors by an international auditing company, on which the distribution of "new bank money" is to be based, is under way. In a press release following the Zurich meeting, bank representatives confirmed that their financing package will be in place before the end of the "standstill" period, namely, end-June 1983. Generally, it was considered that the Zurich meeting had helped to expedite the finalization of the bank and government elements of the package and had assisted in encouraging the BIS to disburse $300 million on April 22 to Yugoslavia. It thus appears that satisfactory progress has been achieved by the banks in implementing their part of the financing package.

4. Performance under the stand-by arrangement

The fall of domestic demand in the first quarter of 1983 was less pronounced than anticipated, owing in part to slippages in the implementation of fiscal and incomes policies, and from the continuing impact of the rapid growth of interenterprise credits, which tends to offset the effects of a tight monetary policy. Preliminary data for the first quarter of 1983 indicate that performance criteria with respect to limits on net domestic assets of the banking system, on credit from the National Bank of Yugoslavia to the budget of the Federation, and on the increase in new medium- and long-term external convertible currency debt, together with the targets for the real effective exchange rate of the dinar, were met.

Developments in public sector revenues in the first two months of 1983 gave rise to concern that the growth limits planned for the year as a whole might be exceeded. However, revenue growth decelerated markedly in March so that the performance criterion for the first three months was observed. The authorities at the end of March approved legislation designed to ensure that if excess revenues were recorded they would be placed in blocked accounts and not used to fuel undue government expenditures. The mechanisms embodied in the law to assure this outturn are described in the attached letter from the Yugoslav authorities. It has also been agreed that the need for further action will be assessed with the Fund at the time of the midyear review.

While the balance of payments in the first quarter developed broadly as projected in the program for 1983, there were indications that current receipts may be lower than projected for the year as a whole, and the disbursements of credits may be somewhat delayed. The Yugoslav authorities felt it was necesary that additional measures be taken to strengthen foreign exchange earnings and therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travelers' checks. This measure introduces multiple currency practices and will require a waiver of the performance criterion on undertakings regarding the exchange system of Yugoslavia. Given the very difficult foreign exchange position and the intention expressed by the Yugoslav authorities to eliminate this practice as soon as possible, the Fund staff would recommend a waiver of paragraph 3.C(ii) in the stand-by arrangement.

In accordance with the Board decision of March 1983, the Board will review the situation of Yugoslavia at midyear, and a mission will be in Belgrade starting May 30 to assess recent developments and ascertain whether policy changes are called for.

It is proposed that the Executive Board take note of the explanatory letter sent by the Yugoslav authorities on the implementation of fiscal policy, and grants to Yugoslavia the waiver it needs for the introduction of an exchange measure on tourism. Since the Board will review the position of Yugoslavia at midyear, it is proposed that the following decision be approved on a lapse of time basis:

Proposed Decision

1. The Government of Yugoslavia has consulted with the Fund in accordance with paragraph 3 of the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/12/81) concerning the circumstances in which further purchases can be made.

2. The letter dated May .., 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia shall be annexed to the stand-by arrangement for Yugoslavia (EBS/81/5, Sup. 2, 2/12/81), and shall supplement the letter of December 30, 1982 and the supplement to that letter dated February 18, 1983 (EBS/83/46, 2/18/83).

3. The Fund notes that the introduction by Yugoslavia of the discount scheme for tourists gives rise to a multiple currency practice. In light of the letter dated May .., 1983 from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, the Fund waives the application of paragraph 3(c)(ii) of the stand-by arrangement for Yugoslavia in this respect, and grants its approval for the retention of the next Article IV consultation or February 28, 1984, whichever is earlier.

ATTACHMENT I

Table . Yugoslavia: Selected Economic Indicators

	1981	1982	1983 Staff forecast	1983 Jan.-Feb.	1983 Jan.-Mar.
	(Percentage change from one year earlier)				
Production, prices, incomes					
Industrial sector					
Production	4.2	0.1	-2.0	-0.3	--
Employment	3.7	3.3	...	2.4	
Net income per employee	37.4	27.2	...	23.0	
Unit labor costs	36.7	31.3	...	26.3	
Producer prices	45.0	25.0	...	25.0	25.0
Nominal aggregate wages	37.5	31.0	30.0	26.0	
Retail price index	46.0	29.0	33.0	31.0	31.0
Retail price index 1/	39.3	30.7	30.0	31.1	31.9
Cost of living index 1/	36.2	32.7	...	35.2	35.6
Public sector					
Public sector revenue 2/	33.0	22.1	13.0	29.6	
Revenue for collective consumption	31.3	29.3	18.0	29.9	24.0
Money and credit					
Domestic bank credit 1/3/	22.9	17.0	11.7		
Money (M1) 1/	26.6	26.6	12.0	25.0	

	1981	1982	1983 Staff forecast	1982 Jan.-Mar.	1983 Jan.-Mar.
	(In millions of U.S. dollars)				
Balance of payments (convertible currency area)					
Exports	5,720	5,858	6,300	1,113	1,421
Imports	10,600	9,637	8,600	2,220	1,915
Trade balance	-4,880	-3,779	-2,300	-1,107	-494
Services and unrequited transfers (net)	3,059	2,359	1,800	206	227
Current account	-1,821	-1,420	-500	-901	-267
Long-term capital (net)	583	-61	707	-12	114
Short-term capital (net)	167	-506	--	-138	200
SDR allocations, errors, omissions	636	412	--	187	173
Use of Fund credit	672	563	421	155	174
Reserve movements (increase -) 4/	-237	1,012	-628	709	6
External reserves of National Bank, end of period	1,702	850	1,475	1,157	843
Exchange rate (end of period)					
Dinars per U.S. dollar	35.5	51.3		44.9	72.8
Effective rate index of the dinar 5/					
Nominal	100	69.5		93.8	56.0
Real	100	85.4	65.3	99.3	72.9

Sources: Yugoslav sources; and IMF staff calculations.
1/ Twelve-monthly change to end of period.
2/ Total revenue of sociopolitical communities.
3/ Stand-by definition.
4/ Including reserves of commercial banks.
5/ Based on official currency basket weights; December 1981 = 100.

ATTACHMENT II

May 4, 1983

Dear Mr. de Larosière,

I am writing to you to assure you that the specific performance criteria agreed under the stand-by agreement have been met but to seek a waiver for a change we have implemented affecting current payments which may constitute a multiple currency practice.

Pursuant to paragraph 4 of the letter of intent of December 30, 1982 as supplemented by paragraph 3 of the letter dated February 18, 1983, public sector revenues and revenues for collective consumption, excluding revenues for payments having the characteristics of personal income payments, have increased when compared with the same period of 1982 by 32 per cent in January, by ... per cent in February, which means 31.8 per cent for the first two months, and by ... per cent in March which means 25 per cent for the first three months. Excess revenues of the public sector and revenues for collective consumption registered in the first quarter will be frozen, effective May 15, in line with our commitment under the letter of intent.

In accordance with our intentions to adjust downward the rate of growth of public sector expenditures the Federal Assembly approved on March 31 a law according to which the public sector revenues and revenues for collective consumption, again defined to exclude revenues for payments defined above, shall not exceed the corresponding figures for 1982 for the period January-July by more than 13 per cent and 11 per cent, respectively. The cumulative intermediate figures for the first four months, the first five months, and six months should not exceed 21 per cent, 17 per cent, and 13 per cent, respectively. If at the end of the first of each of these periods there were revenues in excess of the targets specified above, these revenues will be frozen immediately to avoid any excess in expenditure.

We are fully aware of the need to avoid any excess expenditure growth during the course of 1983 in view of the external constraints and the need for adjustment. We stand ready at the time of the mid-term review, against the background of the data then available, to reach understandings with the Fund on the adequacy of the fiscal measures foreseen and on future action. The adequacy of that share of public sector revenues now being monitored will be assessed at that time.

In view of our desire to see the public sector operations contributing to the adjustment process, we no longer consider it appropriate to reduce taxes *pari passu* to hold down revenues and to permit the redistribution of funds in blocked accounts which will excessively strengthen domestic demand. Therefore, in the event that public sector revenues in the subsequent months should be rising more rapidly than expected, we will rely more on the freezing of excess revenues than on the reduction of tax rates to prevent undesirable effects on domestic demand. The relevant sections of the letter of intent of December 30, 1982, as supplemented by the letter dated February 18, 1983, should be read in the context of the present explanatory letter.

?

While the current account in the first quarter developed broadly as projected, particular uncertainties have arisen in connection with the projections for tourism receipts, but also on the timing of the financial disbursements. It was felt necessary that additional measures be taken to strengthen the prospects for revenue growth, therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travellers checks. While this is in line with the spirit of the program, seeking a strong improvement in the current account with the convertible currency area, it will require a waiver of the performance criteria on undertakings regarding the exchange system of Yugoslavia. Accordingly, I request a waiver of the performance criteria set out in paragraph 3.c(ii) in the stand-by arrangement. It is our intention to eliminate this discount as soon as conditions allow so.

Yours sincerely,

Office Memorandum

May 3, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

I phoned Mr. Schleiminger this morning to ask where the $200 million being the balance of the loan to Yugoslavia now stood. He said that the Kuwaitis who had arranged an earlier syndication for Yugoslavia involving a negative pledge on gold were having every difficulty in getting members of the syndicate to renounce the pledge. He added that a full and as far as he knew an accurate story of the difficulties was contained in today's European edition of the Wall Street Journal. Furthermore he said that the French banks were maintaining their previous position which in fact was an attempt to trade off renouncing the gold pledge for a smaller involvement in the amount of new money to be put up for Yugoslavia.

Schleiminger said that the BIS were not in a position to take action on either of these difficulties and he thought that the prime responsibility had to lie with the Yugoslavs. He suggested that the Yugoslavs should show altogether more urgency in their contacts with the Kuwaitis and he thought that the only sensible approach to the French banks was therefore the Ministry of Finance in Paris. He added that unfortunately the French seem to have other questions at issue with the Yugoslavs so that the negotiation with Paris would probably not be an easy one. He thought the only other people who might be prepared to help were the Americans through the Fed and perhaps also through the U.S. Treasury and the State Department.

Given that the failure to obtain the $200 million would surely have an adverse effect on the bank package let alone on the financing of the gap in 1983 it is essential that Mr. Mentré next week should take up these issues strongly with the Yugoslavs. It might be well advisable that he first contact the Fed and if necessary the U.S. Treasury to see what remonstrations they are making. He should also make contact with the Executive Director representing Kuwait.

Schleiminger finally promised to keep me in touch with any new developments but all in all I got the impression that the BIS was not too sorry that the balance of the loan had run into difficulties.

L.A. Whittome

cc: Mr. Mentré
Ms. Ripley
CED

Draft letter to be signed by Mr. Florjancic

Dear Mr. de Larosière,

I am writing to you to assure you that the specific performance criteria agreed under the stand-by agreement have been met ~~but~~ and to seek a waiver for a change we have implemented affecting current payments which may constitute a multiple currency practice.

Pursuant to paragraph 4 of the letter of intent of December 30, 1982 as supplemented by paragraph 3 of the letter dated February 18, 1983, public sector revenues and revenues for collective consumption, excluding revenues for personal income payments, have increased when compared with the same period of 1982 by 32 per cent in January, by ... per cent in February, which means 31.8 per cent for the first two months, and by ... per cent in March which means 25 per cent for the first three months. Excess revenues of the public sector and revenues for collective consumption registered in the first quarter will be frozen, effective May 15, in line with our commitment under the letter of intent.

In accordance with our intentions to adjust downward the rate of growth of public sector expenditures the Federal Assembly approved on March 31 a law according to which the public sector revenues and revenues for collective consumption, again defined to exclude revenues for personal consumption, shall not exceed the corresponding figures for 1982 for the period January-July by more than 13 per cent and 11 per cent, respectively. The cumulative intermediate figures for the first four months, the first five months, and six months should not exceed 21 per cent, 17 per cent, and 13 per cent, respectively. If at the end of the first of each of these periods there were revenues in excess of the targets specified above, these revenues will be frozen immediately to avoid any excess in expenditure.

We are fully aware of the need to avoid any excess expenditure growth during the course of 1983 in view of the external constraints and the need for adjustment. We stand ready at the time of the mid-term review, against the background of the data then available, to reach understandings with the Fund on the adequacy of the fiscal measures foreseen and on future action. The adequacy of that share of public sector revenues now being monitored will be assessed at that time.

In view of our desire to see the public sector operations contributing to the adjustment process, we no longer consider it appropriate to reduce taxes pari pasu to hold down revenues and to permit the redistribution of funds in blocked accounts which will excessively strengthen domestic demand. We therefore propose to modify the letter of intent. A revised paragraph 3 of our letter of February 18, 1983 is attached to the present letter.

While the current account in the first quarter developed broadly as projected, particular uncertainties have arisen in connection with the projections for tourism receipts, but also on the timing of the financial disbursements. It was felt necessary that additional measures be taken to strengthen the prospects for revenue growth, therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travellers checks. While this is in line with the spirit of the program, seeking a strong improvement in the current account with the convertible currency area, it will require a waiver of the performance criteria on undertakings regarding the exchange system of Yugoslavia. Accordingly, I request a waiver of the performance criteria set out in paragraph 3.c(ii) in the stand-by arrangement. It is our intention to eliminate this discount as soon as conditions allow so.

Yours sincerely,

April 28, 1983

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on Fiscal Policy Intentions

The understandings in this memorandum make more explicit the procedures to be followed in the pursuit of the agreed fiscal policy for 1983 described in Section III of the Supplement to the Letter of Intent.

Legislation in effect as of mid-April 1983 provides for the freezing of excess revenues for general consumption and for collective consumption on the basis of revenue data for the first three months of 1983, revenue data for the first seven months of 1983, and revenue data for the entire year. In view of the unexpectedly large growth of public sector revenues in the first quarter of 1983, action will be immediately taken under this legislation in a manner that insures that for the first quarter by May 15th, and for each subsequent month for which excess revenues are incurred, will be frozen. It will thus be ensured that monthly revenue figures are reviewed as soon as they become available and any excess is frozen within 15 days after the data on revenues become available each month. As stated in Section III, Paragraph 2 of the of the Supplement to the Letter of Intent, "...such surpluses will be placed monthly in a blocked account at the National Bank of Yugoslavia until at least 1985."

Excess revenue for general consumption (defined in this context to include the revenues of the Community of Interest for Foreign Economic Relations) is calculated as the difference between actual revenue in 1983 from January to the latest month covered by the data and actual revenue in the same period of 1982 augmented by 13 per cent. Actual revenue in 1983 includes amounts already frozen in the blocked account with the National Bank of Yugoslavia, and the additional amount of revenue to be frozen each month is equal to the calculated excess revenue less the amounts previously frozen.

Excess revenue for collective consumption will be calculated in the same manner, except that the permitted year-on-year increase in the cumulative monthly revenue data for 1983 is 18 per cent. The definitions of these two revenue aggregates are shown on a monthly basis in a separate technical note. Data on public revenue will be reported to the Fund with a delay of no more than four weeks, and the amounts outstanding in the blocked accounts with the National Bank of Yugoslavia will be shown as a separate item in the National Bank's balance sheet and will be reported monthly to the Fund.

April 28, 1983

AGREED MEMORANDUM OF UNDERSTANDING

Subject: Technical Note on the Definitions of Public Sector Revenue

For the purpose of giving practical effect to the understandings on fiscal policy in the Supplement to the Letter of Intent, "public sector revenue" is defined as comprising the revenues of sociopolitical communities, published in the first table of certain issues of Saopstenje which report public sector revenue data of the Social Accounting Service. Public sector revenues, or revenue of sociopolitical communities, amounted to Din 320.80 billion in 1981 and Din 391.84 billion in 1982, as reported in Saopstenje, January 31, 1983. The same issues of Saopstenje contain data on "revenue for collective consumption," which amounted to Din 386.868 billion in 1981 and Din 500.196 billion in 1982. By way of example, the revenue of sociopolitical communities in the first three months of 1982 was Din 84.258 billion, implying that revenues of these communities in excess of Din 95.212 billion (13 per cent increase) would be frozen by May 15, 1983.

Supplement to letter of intent dated December 30, 1982 as supplemented by the letter dated February 18, 1983

The understandings in this supplement, to the extent that they differ with the detail in the Letter of Intent and the Supplement of February 18, 1983,supersede th~~e~~at detail.

In order to ensure achievement of the restrictive fiscal policy set out in the Plan Resolution for 1983, we have provided for the placement of excess revenues realized during the first /six/ /seven/ months of 1983 into blocked accounts, and in the event that public sector revenues in the subsequent months should be rising more rapidly than expected, we will ~~rely on the~~ freez~~ing~~e ~~of~~ the excess revenues ~~rather than on the reduction of~~ and not reduce tax rates, ~~to prevent~~ [illegible] [illegible], which would have un~~intended~~ desirable effects on domestic demand.

Supplement to letter of intent dated December 30, 1982 as supplemented by the letter dated February 18, 1983

The understandings in this supplement, to the extent that they differ with the detail in the Letter of Intent and the Supplement of February 18, 1983, supersede that detail.

In order to ensure achievement of the restrictive fiscal policy set out in the Plan Resolution for 1983, we have provided for the placement of excess revenues realized during the first ~~six~~ ~~seven~~ months of 1983 into blocked accounts, and in the event that public sector revenues in the subsequent months should be rising more rapidly than expected, we will rely more on the freezing of excess revenues ~~rather~~ than on the reduction of tax rates to prevent undesirable ~~unintended~~ effects on domestic demand.

MEMORANDUM OF UNDERSTANDING

external

In view of the persistent internal constraint on the Yugoslav economy and of the need to further reduce domestic demand we stand ready to discuss with the Fund mission in May-June additional action in the field of fiscal policy.

In addition to measures aimed at an effective freeze of excess revenues, as described in my letter to the Managing Director, they can comprise additional cuts in expenditures, additional taxes, or solidarity loans.

DRAFT/DRipley
4/26/83:12

CONFIDENTIAL

Dear Mr. Minister:

The staff team has now reported on its visit to Yugoslavia and on its assessment of economic developments and prospects. There appears to have been some slippage from the program that we jointly designed at the turn of the year, and there are a number of areas which give rise to considerable concern. The question must also be addressed whether in view of the external environment, measures need to be strengthened, not only to bring the program back on track, but also to secure a larger and more rapid adjustment in the external balance than originally envisaged.

On the domestic side, real consumption has not fallen to the extent projected in the annual plan resolution: general and collective consumption expenditures have increased at excessive rates and private consumption demand has only declined marginally; while this must have adverse consequences for the current account, notwithstanding the foreign exchange constraint, it has certainly increased domestic inflationary pressures. The rate of inflation, particularly as measured by the cost of living, is higher than planned and has offset to a large extent both benefits sought through the rise in interest rates and through the agreed rise in administered price of certain important commodities. Indeed, imports from the convertible currency area have been drastically cut back, partly as imports from the nonconvertible currency area have been substituted for imports from the convertible area, and exports formerly destined for this area have also been diverted. But whether such developments can be expected to continue is in doubt. Tourism receipts appear to have been bolstered by transitory factors, but the outlook for the year as a whole is less than promising. Workers' remittances remain weak, and there continues to be leakage from the capital account. Finally, the financial support package is not of the quality we had hoped and worked for, and the timing of both government and bank disbursements is uncertain. All in all, the outlook must be realistically assessed, but it would appear that further adjustment efforts to enhance competitiveness and compress domestic demand are urgently needed.

According to our information you are satisfying all of the performance criteria set down save that for the development of public sector revenues; the likely growth of revenues through March will result in a breach of the performance criteria and imperil the May drawing. Further evidence is needed but immediate action would seem essential in this field if the May drawing from the Fund is not to be jeopardized. We would urge you to implement as of May 1 the law approved at the end of March to freeze excess public revenues in a blocked account. Admittedly this would require the rapid finalization of the administrative rules governing the implementation of the law, but we have great confidence in your abilities to come to a timely decision. Such blocking would sterilize these funds thereby dampening domestic demand and would also send a clear signal of your intentions to follow a restrictive fiscal policy both to the Fund Board and the international financial community.

But still greater efforts to constrain domestic demand may be needed and with them inflationary pressures and the demand for imports. Although the monetary ceilings are being observed, it is our impression that the traditional "safety valve"--interenterprise credits--has again limited the effectiveness of monetary policy in constraining the rise in prices and nominal incomes. The monetary targets will need to be reviewed, as will the level of interest rates against the background of a severe overshoot of the 20 per cent inflation target you set yourselves. [Efforts to prevent new distortions from being introduced into the domestic pricing structure are also called for under the stand-by arrangement.] Further, the early and extremely rigorous implementation of both laws enhancing the power of the SDK, designed to restrain wage developments and the growth of interenterprise credits, are called for--preferably before the mid-year review with the Fund. To provide for further support for your personal incomes objectives you might wish to inplement in May your draft proposal establishing a maximum rate of growth for nominal wages. In our view, this limitation would best be applied to personal incomes per employee rather than the wage bill paid by enterprises, both on account of economic and administrative considerations. Rises should be carefully monitored, undue increases being disallowed and firms granting such rises being penalized.

Clearly given the scarcity of foreign exchange only imports that offer the highest prospects of return, primarily in the form of export earnings (but also import substitution for essential commodities), should receive such financing. It is not clear to us that the foreign exchange law provides for the optimal treatment of export earnings either in terms of providing incentives for exporters or optimizing the allocation of foreign exchange to importers. Questions also arise about the distribution of credits obtained under the financial support package, and we would like to review carefully all of these matters with you at the latest, in June. At that time, we will also discuss with you, as promised, alternative measures of the real exchange rate and reassess the appropriateness of the exchange rate.

In short, you have achieved much, but more is needed in view of your objectives of securing economic independence and reducing reliance on foreign credits. A greater effort is also needed in the short term to close the financial gap we now see emerging in 1983. We hope that serious consideration will be given to additional adjustment efforts during your parliamentary deliberations in May, and that timely measures will be implemented then or will quickly be agreed at the time of the mid-year review.

Yours sincerely,

L. A. Whittome

Office Memorandum

Z

To : Mr. Hood
Mr. Mookerjee
Mr. Cutler
Mr. Holder

April 29, 1983

From : Duncan Ripley DR

Subject: Yugoslavia

Please find attached a very short paper containing recent information on the economic situation in Yugoslavia and reporting on progress being made in finalizing the financial support package. This paper has been prepared in anticipation of the next drawing, scheduled for mid-May. It is to be supplemented by a letter to be submitted by the Yugoslav authorities (see incomplete draft attached).

Mr. Mentré has asked me to circulate this paper to you at the same time that it is being given to Mr. Whittome. Could I please have your comments by close of business on Monday. We hope to submit the paper to Management on Tuesday and circulate it to the Board on Wednesday evening. I apologize for the tightness of this timetable.

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Review of Economic Performance and
External Financing Package

Prepared by the European Department
(In consultation with other Departments)

Approved by L.A. Whittome and Subimal Mookerjee

April , 1983

1. Introduction

On March 11, 1983, Executive Directors approved the program for the third year of the current stand-by arrangement with Yugoslavia. A first purchase for an amount of SDR 175 million was made on March 15. The second purchase for an amount of SDR 150 million was to take place after May 16, providing Yugoslavia has met the performance criteria set down in the stand-by arrangement, and that satisfactory progress has been made on the implementation of the financial package. The staff visited Belgrade from April 18-22, 1983. The mission comprised Mr. Mentré, Ms. Ripley, Mr. Manison, Mr. Lewis (all EUR), Mr. Brimble (STAT), and Mr. Petersen (ETR), and as secretary Mrs. Watson (ETR). This paper reports on the findings and results of this recent staff visit to Yugoslavia and on the progress in putting together the international financial support package on behalf of Yugoslavia.

2. Recent economic developments and prospects

Data on economic developments in the first quarter of 1983 are incomplete. However, on the basis of the limited data available, it can be discerned that real domestic demand did not decline to the extent planned, while inflation was higher than expected. These developments occurred against the background of more severe external constraints arising largely from a shortfall in receipts on capital account. Both personal and public consumption were higher than planned in the initial months of 1983. Although real wages in the socialized sector recorded a marked fall of 7-8 per cent compared with one year earlier, domestic purchasing power seems to have been sustained by factors such as the high level of incomes in the agricultural sector in 1982 and drawings on the large volume of foreign exchange accounts held by the household sector. In the first quarter of 1983, preliminary figures indicate that total public sector revenues were 25 per cent above their level in the first quarter of 1982. In the three months to March 1983, domestic prices rose at a faster rate than expected notwithstanding the effects of the depreciation of the dinar and of officially administered price changes. In the 12 months to March 1983 retail price and cost of living indices rose by 32 per cent and 36 per cent, respectively. Further substantial price increases are expected in April 1983.

On the external side, the trade deficit with the convertible currency area was considerably reduced in the first quarter of 1983, due to both a substantial increase in export shipments and to a large cutback in imports. These developments reflected, inter alia, a shift in exports from the nonconvertible to the convertible currency area, and considerably higher raw material and oil imports from the U.S.S.R. Low stocks of imported goods, which may hinder export-oriented production, together with a sharp decline in advance tourist bookings and uncertainties with respect to remittances from Yugoslav workers abroad, could adversely affect receipts on the current account of the balance of payments in the coming months. On the other hand, the more active exchange rate policy being pursued by the authorities appears to be promoting the faster growth of exports to the convertible currency area. During the first quarter of 1983, there was little change in the level of gross external reserves of the National Bank and the commercial banks, with their level remaining at US$1.7 billion.

3. International financial package

The main participants in the international financial support package for Yugoslavia--representatives of the 15 countries who pledged assistance at the January 1983 Berne meetings, representatives of the International Coordinating Committee (ICC) of the commercial banks providing financial support to Yugoslavia, and representatives of the IMF--met with Yugoslav representatives in Zurich on April 16, 1983 to discuss progress in implementing the elements of the financial package. A number of procedural problems relating to coordination between governments and banks in executing their elements of the package were identified and resolved at the Zurich meeting. There have been some problems in finalizing bilateral agreements with certain countries, in part because they are offering suppliers' credits for investment goods which Yugoslavia does not wish to import. Accordingly, it is possible that a part of the intergovernment financial package will not be disbursed in 1983.

The Zurich meeting indicated that the banks are making encouraging progress in putting together their part of the package, though delays have been experienced here also. The reconciliation of external debt data between creditors and debtors by an international auditing company, on which the distribution of "new bank money" is to be based is under way. In a press release coming out of the Zurich meeting, bank representatives confirmed that their financing package will be in place before the end of the stand-still period viz. end-June 1983. Generally, it was considered that the Zurich meeting had helped to expedite the finalization of the bank and government element of the package and had assisted in encouraging the BIS to disburse $300 million on April 22 to Yugoslavia. It thus appears that satisfactory progress has been achieved by the banks in implementing their element of the financing package.

4. Performance under the stand-by arrangement

The less pronounced than anticipated fall of domestic demand in the first quarter of 1983 appears to have stemmed from slippages in the implementation of fiscal and incomes policies, and from the continuing impact of the rapid growth of inter-enterprise credits, which tends to offset the effects of a tight monetary policy. Preliminary data for the first quarter of 1983 indicate that performance criteria with respect to limits on net domestic assets of the banking system, on credit from the National Bank of Yugoslavia to the budget of the Federation, and on the increase in new medium- and long-term external convertible currency debt, together with the targets for the real effective exchange rate of the dinar, were met.

Developments in public sector revenues in the first two months of 1983 gave rise to concern that the growth limits planned for the year as a whole might be exceeded. Although the performance criterion for the first three months was observed, the authorities have taken action to strengthen fiscal policies.

On March 31, 1983 the Federal Assembly approved a law which, through mechanisms described in the attached letter of the Yugoslav authorities, will ensure adherence to agreed targets. It has been furthermore agreed that future action will be assessed with the Fund at the time of the mid-year review.

While the balance of payments in the first quarter developed broadly as projected in the program for 1983, there were indications that current receipts may be lower than projected and the disbursements of credits may be somewhat delayed. The Yugoslav authorities felt it was necesary that additional measures be taken to strengthen foreign exchange earnings and therefore a scheme was introduced in early April which entitles foreign tourists to a 10 per cent discount on goods and services when paying in dinar travellers checks. This measure introduces multiple currency practices and will require a waiver of the performance criteria on undertakings regarding the exchange system of Yugoslavia. Given the very difficult foreign exchange position and the intention expressed by the Yugoslav authorities to eliminate this practice as soon as possible, the Fund staff would recommend a waiver of paragraph 3.C(ii) in the stand-by arrangement.

In accordance with the Board decision of March 1983, the Board will review the situation of Yugoslavia at mid-year, and a mission will be in Belgrade starting May 30, to assess recent developments and ascertain whether policy changes are called for.

It is proposed that the Executive Board takes note of the explanatory letter sent by the Yugoslav authorities on the implementation of fiscal policy, and grants to Yugoslavia the waiver it needs for the introduction of an exchange measure on tourism.

Since the Board will review the position of Yugoslavia at mid-year, it is proposed that the following decision be approved on a lapse of time basis:

Proposed Decision

1. The Government of Yugoslavia has consulted with the Fund in accordance with article 9 of the stand-by arrangement for Yugoslavia (EBS/81/5, Supplement 2, (2/12/81)) concerning the introduction of additional fiscal measures and concerning the introduction of a 10 per cent discount scheme applicable to tourists utilizing dinar travellers checks which gives rise to multiple currency practices.

2. The letter from the Governor of the National Bank of Yugoslavia and the Federal Secretary for Finance of Yugoslavia, dated May , 1983 setting forth additional fiscal measures which the authorities of Yugoslavia will implement in the third year of the stand-by arrangement, shall be annexed to the stand-by arrangement for Yugoslavia, and the letter of January 15, 1981, annexed to the stand-by arrangement, as supplemented by the letter of January 25, 1982, and the letter of December 30, 1982 within a supplement dated February 18, 1983, shall be read as supplemented by the letter of May , 1983.

3. In the circumstances of Yugoslavia, the Fund waives the provision of article 3 (c)(ii) of the stand-by arrangement for Yugoslavia in respect of the discount scheme for tourism and grants its approval for the retention of this exchange restriction until the completion of the next Article IV consultation or February 28, 1984, whichever is earlier.

Mr. Whittome

2

Office Memorandum

TO : THE FILES DATE: April 28, 1983

FROM : Wayne Lewis WL

SUBJECT : Yugoslavia - Public Sector Revenue

Mr. Manison received some limited information from Mrs.Hofmann on public sector revenue for the first quarter of 1983. Revenue of sociopolitical communities and of communities of interest rose by 25 per cent in the first quarter of 1983, compared with a year earlier, to Din 238.8 billion. This appears to be consistent with the sum of lines 8 and 11 in the attached table. As noted at the bottom of the table these revenue categories are those which are being proposed in an agreed memorandum of understanding as the revenue aggregates to be monitored for the purpose of quantifying excess revenues that are to be frozen each month. Consequently, it appears that the year-on-year growth in the sum of public sector revenue and revenues for collective consumption in March, 1983 amounts to 17.4 per cent. On the one hand this would seem to suggest that a waiver would not be needed in respect of the public sector performance criterion prior to the May drawing. On the other hand, the sharp deceleration in the year-on-year growth of revenue from 30 per cent in both January and February 1983 to 17 1/2 per cent in March is vaguely reminiscent of the way the Yugoslavs manage to slip in under the domestic credit ceilings by a few dinars time after time. In any event the more detailed revenue data that had been requested have not yet been received.

In a meeting with Mr. Petrovic today it was learned that for purposes of freezing excess revenue, those revenues earmarked for personal income payments and revenues at the republican and provincial levels to be transferred to the federation budget would be excluded. Under present legislation surpluses are to be blocked only to the end of 1983. The legislation also provides that revenue data must be submitted to the social accounting service within ten days after the end of each month.

HBJ Had we realised this? We were aware of this provision.

ON RETROACTIVITY THE FEBRUARY LETTER IS TECHNICALLY A SUPPLEMENT TO THE DECEMBER 30 LETTER

Yugoslavia: Public Sector Revenue

(In billions of dinars)

	1981	1982							1983		
		Jan.	Jan.-Feb.	Jan.-Mar.	Jan.-June	Jan.-Oct.	Jan.-Nov.	Jan.-Dec.	Jan.	Jan.-Feb. % Δ, yr-on-yr.	Jan.-Mar.
Revenue of sociopolitical communities											
1. Budget of the Federation	95.2	11.0	18.1	~~27.0~~ 26.999	53.8	96.1	105.5	117.0	14.2	23.4	
2. Budgets of republics and provinces	129.3	10.0	19.8	~~33.6~~ 33.585	69.1	125.7	138.3	151.8	12.7	24.6	
3. Budgets of municipal and other local governments	57.1	4.0	8.6	~~14.1~~ 14.063	31.7	58.7	65.3	73.6	4.9	10.4	
4. Total budgetary revenue	281.6	25.0	46.5	~~74.7~~ 74.647	154.6	280.6	309.1	342.4	31.9	58.4 25.6	
5. Other revenue for general consumption	5.6			2.914		8.0	9.1	8.8	2.1	4.3	
6. Total revenue for general consumption	287.2			77.561		288.6	318.2	351.2	34.0	62.7	
7. Revenue of the CIFER 1/				6.697		31.5	34.5	40.6	2.9	6.7	
8. Total	320.8	28.0	53.616	~~84.3~~ 84.258	177.0	320.1	352.7	391.8	36.9 32	~~69.5~~ 69.469 29.1	
Revenue for collective consumption											
9. Revenue from communities of interest	386.6		61.1	107.044		400.3	447.9	499.8	34.6	79.4 30.0	
10. Other revenue for collective consumption	0.3		--	.072				0.4		--	
11. Total	386.9		61.142	107.116				500.2		79.407	
12. Revenue for other needs	161.4		23.3					~~215.5~~ 216.6		31.5	
13. Total public sector revenue (6+11+12)	836.4	66.4	138.1	240.9	492.0	862.3	957.5	1,068.0	86.8	180.4 30.6	
Memorandum item:											
Budgetary revenue in January accruing in preceding year	10.0	12.6	12.6						17.7	17.7	
Line 8 + Line 11			114.758	191.374						148.876	238.8

1/ Community of Interest for Foreign Economic Relations.

"Public sector revenue" (line 8) + "revenue for collective consumption" (line 11).

Office Memorandum

April 28, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - Meeting with Mr. Dobrich of Manufacturers Hanover

As agreed in Zurich I met with Mr. Dobrich at Manufacturers Hanover in New York on April 26 to review the timetable of the implementation of the loan agreement. Mr. Dobrich confirmed that Manufacturers Hanover and the members of the ICC intend to fulfill the commitment to sign the loan agreement before end-June.

1. The reconciliation process

The most important part of the reconciliation process is the one relating to the outstanding exposure of each individual bank on November 30, 1982. The report by Peat Marwick on this exposure is to be available on the first of May. However, out of the 590 telexes sent by Manufacturers Hanover to individual banks, 460 replies have now been received, but the replies of some large banks, such as the Bank of America, are still outstanding.

Mr. Dobrich is less concerned about the reconciliation of the figures on maturities falling due in 1983. The Yugoslav figures will be available only at end-May but basically as far as the creditor banks are concerned it is largely a by-product of the first exercise. It is doubtful that the whole reconciliation process will be completed by end-June. It is contemplated that the participations in the $600 million loan of banks for which the data have not yet been reconciled--perhaps accounting for 10 per cent of total claims--will be set aside in an escrow account held with Manufacturers Hanover, to be disbursed as soon as the reconciliation has been achieved.

2. Allocation of the loan between banks

The ICC has already cleared some difficulties: exclusion of floating rate notes held by Japanese nonbanks; exclusion of the "retained portion" held by French or German banks on guaranteed export credits which are not rolled over; acceptance of the distinction made by Swiss banks between their own exposure and the exposure of their nonbank customers (trust accounts), even though other bankers have the greatest doubt about this distinction in view of the existence of repurchase agreements.

It is likely that the difficulties will concentrate on three groups of banks:

- the French banks who want to exclude from the base the $150 million loan they were "invited" to arrange by the French Government in 1981;

- regional U.S. banks who do not want to increase their exposure;

- consortium banks, including some Arab consortiums who do not want to be participants in the exercise.

There will clearly need to be some pressure applied by the Fund, the FED, and the Bank of England to resolve these difficulties.

3. Phasing

Mr. Dobrich thinks it would be possible, in spite of the position of some banks, to avoid any link between the phasing of bank loan disbursements and the phasing of the governmental package (Mr. Dobrich said that the banks "will have to swallow it").

He contemplates parallel phasing with Fund drawings in 1983 which would mean that more than one half would be released upon signature, about one quarter on the 15th of August and the remainder at the time of the last drawing.

4. Timetable

Mr. Dobrich will be in Belgrade around the 11th of May to collect the necessary legal documentation. He would appreciate it if, on an informal basis, we could send to him in advance a translation of the foreign exchange law.

Mr. Dobrich looks forward to future contacts between the ICC and the Fund before the completion of the loan agreement. He added that he was aware that these mutual undertakings will not end with the year 1983.

P. M.

Paul Mentré

cc: Mr. Whittome
CED
Mr. Lewis
Mr. Petersen

cc: DR

Office Memorandum

TO: Mr. Whittome
Mr. Mentre

DATE: April 27, 1983

FROM: Duncan Ripley

SUBJECT: Yugoslavia

This morning I received a telephone call from Mr. Schneider. He had recently been in Vienna and had been informed by his authorities of the telex sent by the Managing Director urging governments to roll over guarantees on Yugoslav debt falling in 1983. He had not received a copy of the telex sent by the Managing Director and felt quite strongly that he should have and that in instances such as this the Executive Board was all too frequently being bypassed. He asked for a copy of the telex which I would propose to try to give to him, if you have no objection.

surely
28/4

Mr. Schneider also noted that his authorities were very much interested in developments in Yugoslavia since their relations with Yugoslavia both financially and in terms of trade, were reasonably important to them. He wondered whether it would be possible for us to draft a short note outlining the current situation and developments in the financing package. I said that I would check with the Immediate Office as to how best to proceed since it was possible that a number of Directors would be making similar requests. Perhaps I could flag the short board paper that will be circulated in the middle of next week and suggest that this would be adequate for his purposes?

I think so

Mr. Whittome

Office Memorandum

MEMORANDUM FOR FILES April 27, 1983

Subject: Conversation with Mr. Florjancic

I was speaking with Messrs. Petrovic and Novoselac just before lunch when Mr. Florjancic joined us. My request for public sector revenue data for March was conveyed and Mr. Florjancic suggested that a meeting between some of his people (probably including Mr. Novoselac) and myself and one or more of my colleagues be set up for tomorrow morning both to discuss thoroughly the various documents which have been brought to Washington at our request and to give the Yugoslav authorities a further opportunity to explain their economic policies to us. He suggested, probably not facetiously, that some 3-4 hours would be needed. I gave a tentative affirmative response and said that a time could be confirmed later today.

Mr. Florjancic said that the year-on-year growth of public sector revenue had declined from 30 per cent in January and February to some 25 per cent in March which showed the right trend in the growth rate of revenue, though a further deceleration would be necessary. He promised to provide first quarter data revenue later this afternoon but suggested that they were either preliminary or incomplete. Hedging somewhat he said that not all revenue data had been received but definitive data would be due by May 5. (If one adds the 15 days allowed for the freezing of excess revenue, this implies that such freezing would be completed only after the May 15 scheduled purchase.) A further freezing of excess revenues is also scheduled to take place on the basis of data for the first 7 months (for which data would no doubt be available only after August 15) and for the full 12 months of 1983. He noted that, while the annual plan resolution for 1983 stipulated that first quarter public expenditure (revenue?) should be no more than the quarterly average for 1982, such a rule was seen to be insufficiently restrictive, once the letter of intent had been revised, given the normal seasonal weakness of the first quarter of the year.

On the basis of our brief conversation it appears clear that we need to reach a more explicit understanding with the Yugoslav authorities on the freezing of excess revenue. Also, as regards a key sentence in Section III of the Supplement to the Letter of Intent ("... any trend increase in public sector revenues ... for any period of three successive months will be taken as not commensurate with the program agreed in the Letter of Intent"), it would seem that Mr. Florjancic would probably wish to interpret this to mean that the 12-monthly growth rates of public sector revenues should be declining month by month unless they are below the planned rate of growth.

W Lewis
W. Lewis

cc: Mr. P. Mentre
Ms. D. Ripley
Mr. L. Manison
Mr. A. Petersen

Subject

Office Memorandum

TO : The Managing Director

DATE: April 27, 1983

FROM : Hans O. Schmitt

SUBJECT : Follow-up Staff Visit to Yugoslavia

A follow-up staff visit to Yugoslavia is scheduled to start on May 9, for a period of a week. The work program of the mission has expanded beyond what was foreseen when the initial staffing was proposed. In addition to gathering data needed before the May drawing, holding discussions with banks and enterprises in Belgrade and Zagreb, further information will be obtained on the foreign exchange law and other laws that will be taking final form at that time and discussions will be held about other measures under consideration in the incomes and fiscal policy areas. At the time that this follow-up mission was proposed, it was suggested that it comprise Mr. Mentre and Mr. Lewis (EUR) and a secretary. Given that more substantive discussions are now expected to be held with the authorities, we would like your approval for Mr. Petersen (ETR) be included in the staff team.

cc: Mr. Finch
Mr. Tenconi (Table will follow)

cc: LAW's folder

Mr. Carter

April 27, 1983

Hans Schmitt

Mr. Florjancic

Attached please find a short brief for the Managing Director's meeting with the Yugoslav Finance Minister, Mr. Joze Florjancic. Mr. Mentré's back-to-office report was sent to you separately.

Attachment

cc: CED
Mr Mentré

April 27, 1993

Briefing for the Managing Director's Meeting with Mr. Florjancic

Biographical details

Mr. Joze Florjancic is a Slovene and in his mid-40s. He has been the Federal Secretary for Finance since May 1982. Prior to this he was the Finance Secretary in the Republican Government of Slovenia. His present position not only gives him considerable influence in the area of public finances but also in the drafting of legislation dealing with financial matters, including the strengthening of financial discipline in the enterprise sector and the allocation of foreign exchange.

Discussion topics:

1. UNCTAD Meeting - Mr. Florjancic may raise the subject of the contents of your speech to the UNCTAD meeting in Belgrade in early June. He feels that the recent G77 Ministerial meeting in Buenos Aires gave rise to a more conciliatory tone in the dialogue between developing and industrialized countries. He hopes that further progress along these lines can be made during the UNCTAD meeting, especially given that it will be in Yugoslavia, a country which has been at the forefront of the nonaligned movement.

2. Economic situation and stand-by arrangement - The present economic situation and the status of the current Fund stand-by arrangement with Yugoslavia are outlined in Mr. Mentré's back-to-office report of April 21.

a. The main operational area of immediate concern relates to the need for the Yugoslav authorities to take prompt action to moderate the rapid growth of public expenditures. This could be accomplished (i) by reducing the revenues available for such expenditures through lowering taxation and contribution rates for collective consumption, and/or (ii) by sterilizing excess revenues in blocked accounts at the National Bank. We require concrete evidence of some actions of this kind if the May 15 purchase under the stand-by arrangement is not to be delayed. A determination will also have to be made of adequate progress in finalizing the financial package.

b. Given the slippages in domestic demand management, the acceleration of inflation, and the tight external payments position, Mr. Florjancic could also be warned of the urgent need for additional measures in the areas of personal incomes and interenterprise credits; of the need to increase interest rates; and of the need to make sure that the new exchange law is not implemented in such a way as to undermine competitiveness.

4/26/83 Mr. Mentre LAW

MEMORANDUM FOR FILES

Subject-- Yugoslavia: Meeting with Mr. Colanovic of Yugobanka

Messrs. Mentre and Manison met with Mr. Colanovic, President of Yugobanka at his office on April 21, 1983.

Relations with foreign creditors

Mr. Colanovic said that Yugoslav bank relations with foreign creditors were complicated by too many Yugoslav banks being able to engage in foreign transactions and too many foreign banks and governments being involved in negotiations with Yugoslav entities. As a result this was a factor in slowing down the completion of the international financial support package to Yugoslavia. Governments wanted different terms on the credits they were offering Yugoslavia. For instance, the Americans were offering medium-term export credits, whereas the Japanese were offering 180-day credits. Particular Yugoslav banks had been designated to negotiate the details of financial support arrangements with specified government participants in the Berne package. These relations were as follows:

Yugobanka - USA and Japan
Beogradska Banka - France
Privrendna Bank Sarajevo - Italy
Llubljanska Banka - Germany
Zagrebacka Banka - United Kingdom

There were problems in dealing with some other governments (mainly Scandinavian) where some weaker Yugoslav banks had been initially designated.

In the evolving new financial arrangements with foreign commercial banks, Mr. Colanovic stressed that there were still a number of practical problems to be ironed out.

-Firstly, the ICC had agreed that the overall volume of short-term bank debt outstanding would be maintained. The foreign banks considered that if short-term credits were repaid by one Yugoslav bank they had the right to extend the credit to another Yugoslav bank. That is, they reserved the right to change the Yugoslav partner. Whether this practice was to be strictly applied and whether it was desirable would need to be resolved.

-Secondly, there was the question of whether the National Bank guarantee on short-term bank indebtedness related to the total debt or whether it applied to each credit line; in the latter case there would be the practical difficulty of continually securing National Bank guarantees on credit lines.

-Thirdly, there was the problem of whether all future medium-term foreign loans would need to be guaranteed jointly and severally by the

Yugoslav banks and the National Bank and backed by the Federal Government. Would it be necessary to go to parliament each time a medium-term loan was negotiated. There was the strong view among Yugoslav banks and government officials that the guarantee conditions being imposed on Yugoslavia by the present loan package with the ICC banks should be an exception.

Mr. Colanovic said that he had understood from the March 25, 1983 London meeting that the full amount of $600 million new loan from the ICC banks would not be immediately and fully disbursed once the loan documents had been signed. Disbursements from the loan would be in line with the cash flow contributions from disbursements from the Berne governments package. The disbursements under the ICC loan would go to National Bank as part of its foreign exchange reserves and there would be no predetermined allocation of these funds.

On the subject of the continual repayment of certain bank principal liabilities in spite of the standstill on the repayment of bank maturities, Mr. Colanovic stated that the Japanese had insisted on the repayment of some floating rate notes while there were reports that the Bank of America had insisted on a principal repayment.

The five most credit worthy banks had created a fund to clean up interest arrears to foreign banks. Such arrears were in the process of being paid on a chronological basis through the New York agency of Yugobanka. It was indicated that such arrears had amounted to $130 million. It had also been arranged that the Yugobanka would also jointly handle the dollar operations of other Yugoslav banks through its New York branch.

Business International would be arranging a meeting of representatives of overseas companies and Yugoslav enterprises in Dubrovnik next week. It would be interesting to see what foreign companies attended and their business and financial intentions toward their Yugoslav counterparts.

Domestic Banking Operations

Mr. Mentre asked about measures being taken and comtemplated to strengthen the Yugoslav banking system. Mr. Colanovic replied that in contrast to the past the National Bank was penalizing strictly Yugoslav business banks who were not meeting their payments obligations. They were being denied access to National Bank credits and foreign credits which effectively limited their ability to conduct domestic and external banking operations. The banks subject to these penalties were PBZ, Vojvodjanska Banka, Stopanska Skopje, Kosovska Banka and IBT Montenegro. This development, however, created problems for the sounder Yugoslav banks since customers had now to approach the latter banks for credit. As credit limits imposed by the National Bank were the same for all Yugoslav banks - rates of increase in credit of 0.9% monthly - it was difficult to satisfy the diverted customers. It was his view that the National Bank should be more flexible in its conduct of credit policy; otherwise its restrictive policies would tend to be counterproductive.

In a similar context, Mr. Colanovic noted the banks were now obliged to take foreign supplier's credits on accounts of their customers and that these when on-lent to domestic enterprises were treated as part of the banks' domestic assets. Because of this change in institutional arrangements banks were reluctant to accept new suppliers credits since their ability to finance domestic activities would be curtailed. Yugobanka, for example, was having problems in financing the production of certain exportables and the timely completion of certain important export contracts (e.g. ships to China) was in jeopardy. Yugoslavia could obtain credits from the Yugoslav International Bank for Economic Cooperation to refinance it credits for the export of capital goods. However, such refinancing would cause Yugobanka to run up against the limits imposed by the National Bank on its total liabilities.

On the question of whether a merger of the Croat business banks would strenghten the Yugoslav banking system, Mr. Colanovic was of the view that the problems of the PBZ would swamp other Croat banks and bring them into a perilous state as well.

Domestic adjustment

Mr. Colanovic said that the implementation of certain elements of the stand-by arrangement, namely the rapid depreciation of the dinar, the higher interest rates, and officially administered price changes were markedly increasing financial losses in the enterprise sector. Given the Yugoslav economic system and behavioral mechanisms, especially in the areas of prices, employment and investment, it was difficult to obtain adjustment with the typical policy instruments prescribed and implemented under IMF stand-by programs. Enterprise losses would continue to mount and it was difficult to envisage how they could be covered with the tight financial policies being pursued. Furthermore, the large volume of foreign exchange deposits and the wealth creating effects from dinar depreciations helped to blunt the edge of tight monetary policies and keep up domestic buying power.

Foreign exchange allocation

Mr. Colanovic said that allocation of foreign exchange in the Yugoslav economy was a major problem. Under the old system foreign exchange was allocated on a republic-by-republic basis with certain republics and provinces having the right to incur deficits. Presently, the authorities were in the process of devising arrangements to ensure that export-oriented industries obtained the necessary foreign exchange to sustain and even expand their production. However, there was also need for non-export industries (e.g., coal mining) to secure foreign exchange to enable them to import essential products (e.g. conveyor belts). Persuading exporters to surrender some of these foreign exchange for non-exporters was a major pre-occupation of Yugobanka which handled about one-third of Yugoslavia's foreign exchange earnings. A large part of the remainder was dealt with by Ljubljanska (26%) United Belgrade (16%) and P.B. Sarajevo (6%)

L G Manison

L. G. Manison

cc: Mr. Mentre
Mrs. Junz
Ms. Ripley
Mr. Brimble
Mr. Lewis
Mr. Petersen

LAW

Office Memorandum

CONFIDENTIAL

MEMORANDUM FOR FILES

April 25, 1983

Subject: Policy Discussions with the Yugoslav Authorities, April 22, 1983

The Yugoslav authorities were represented by Mr. Dragan, Vice President, Federal Executive Council; Mr. Makić, Governor of the National Bank of Yugoslavia; Mr. Florjančić, Minister of Finance; Mr. Veljković, Deputy Governor of the National Bank of Yugoslavia; Mr. Sindić, Head of the Planning Bureau; Mr. Stamenković, Advisor to the Prime Minister; and other representatives from the National Bank and the Federal Government. Mr. Mentre, Mr. Manison, and I attended the meeting. The preliminary findings of the quarterly staff visit were presented, and the reactions of the Yugoslav authorities to various policy measures were sought. The meeting lasted some two and one half hours, and the discussions were generally cordial.

Mr. Mentre pointed out that domestic demand, both in our view but also in the view of the Yugoslav authorities, appeared to be less restrained than we had hoped for, and the external financial difficulties were greater, if only because of the quality of the financial support package and delays that had been encountered, and could continue to be encountered, in realizing disbursements (see Attachments I and II). Thus, further policy action was needed, and the more rapidly it could be implemented, the better. Action before the midyear review would be highly desirable. Mr. Mentre noted a number of areas requiring the immediate attention of the authorities.

The development of public sector revenues was of major concern for two reasons: it would appear to be providing excessive support to domestic demand; at the same time these developments--in the absence of immediate remedial action--seemed to be in contravention of the performance criteria laid down in the supplement to the letter of intent (see Attachment III). The fiscal criterion limited the year-on-year growth of public sector revenues to 18 per cent, whereas during the first two months the data available to the staff indicated rises of 30 per cent. According to the letter of intent such developments should lead to tax reductions, but the staff was only aware of proposed tax increases in April. It was essential that the Yugoslav authorities take immediate action to reduce revenue or block excess revenues and provide the Fund with adequate evidence of such measures so that the May drawing could be made.

Mr. Florjančić noted that a law had been passed on March 30, 1983 which empowered the SDK to block the excess revenues of socio-political communities in excess of 11 per cent (excluding the Federal Government) and of self-management communities of interest, in excess of 13 per cent. This law, with extreme difficulty, had been passed within one month. It was now foreseen that the average monthly level of revenues would be calculated for the first seven months of 1982 for each of the two groups whose revenues were to be monitored by the SDK. These amounts would be increased by 11 and 13 per cent, respectively, and would indicate the permitted revenue growth for the seven-month period, January-July 1983. To the extent that revenue rises were excessive in the first quarter by these standards, the revenue rise that would be permitted to be realized during the period April-July would be reduced correspondingly, with any excess increase being blocked. Mr. Florjančič agreed to bring a translation of the law to Washington as evidence of full compliance with the letter of intent. How these averages would be applied to various public bodies with different revenue situations, and precisely what form revenue blocking will take was unclear. The details on how this law would be monitored had yet to be worked out but would be submitted to the SDK by May 5.

Mr. Florjančič also informed the staff that, contrary to its supposition, there had been significant tax reductions by provinces and municipalities and in contribution rates for collective consumption in March. These had centered on taxes on personal incomes and on enterprise incomes. To be sure, the turnover tax had increased in April, but this had been introduced so as to curb domestic demand. All sociopolitical communities and communities of interest would have to submit their monthly revenue and expenditure plans until end-July to the SDK. An analysis of the impact of the tax changes would be available by May 5. He felt that the public sector was indeed showing considerable restraint in its expenditure policy, stating that in one republic teachers had not been paid for two months, while in another pensions had not been paid for a month. In his view, fiscal developments would be very restrictive. Mr. Mentre stressed the need for concrete evidence before May 15 that substantive action was being taken in the fiscal field, and Mr. Florjančič agreed that adequate and timely evidence would be provided (see Attachment IV). Mr. Mentre wondered whether the timing of the action taken by the Yugoslav authorities would not give rise to difficulties in satisfying the performance criterion. Mr. Dragan stressed that there was no substantive difference between the Yugoslav authorities and the Fund staff, and that the policy of preventing excessive revenue growth through the end of the year would be pursued.

Turning to incomes policy, Mr. Mentre noted that the development in real wages seemed broadly in line with intentions, but that this had been brought about by an acceleration in inflation rather than a holding of nominal wages to their fourth quarter level. The rapid rise in inflation, which in the staff's view exceeded that which could reasonbly be explained by administered price measures and exchange rate developments, was undesirable from a number of perspectives. Important administered price increases had been negotiated to reduce price distortions, but the rapid rise in the overall level of prices without further adjustments to these individual prices let these distortions re-emerge. (This contravened the intentions stated in the stand-by.) The rise in inflation also reduced any beneficial effects to be looked for from the interest rate measures agreed. Perhaps a ceiling on the rate of increase of nominal wages could be introduced, at least in the second half year, to reduce the inflationary spiral. Mr. Dragan stated that the Yugoslav authorities were looking both at ways to dampen the growth of personal income developments but also at other ways to dampen the growth of personal consumption expenditure. He thought a fall in personal incomes in real terms of more than 7 1/2 per cent in 1983 would not be tolerable, given that this would be the third year of declining real personal incomes, and that in 1981 and 1982 a cumulative decline of 13 to 15 per cent had been registered. In his view, the development in personal incomes gave rise more to a cost-push than a demand-pull inflation, but in any event the relation between wages and prices gave rise to a vicious spiral.

The Yugoslav authorities were contemplating a federal law setting an upper limit for the rate of increase of the wage bill for individual enterprises, and this limit could be applied economy-wide. Mr. Sindić noted that this proposal was under discussion with the trade unions. Some deceleration in the growth of personal incomes had been experienced in April. Mr. Stamenković queried whether it was really fair to argue that inflation exceeded what could be reasonably have been expected, taking into account exchange rate and administered price measures that had been urged on the authorities. The rise in producers' prices were fairly moderate, set against this background (25 per cent), though the rise in the cost of living (35 per cent) was much less easily justified. He queried whether any federal law was needed to secure moderation in the growth of nominal wages, especially when there had been marked deceleration in the 12-monthly growth rates of nominal personal incomes over the last three months. He thought, however, that there would be a need for administrative interventions if average nominal personal incomes in the first quarter of 1983 were more than 25 per cent above their level of a year earlier.

Mr. Mentre commented that from an administrative point of view at least (and most clearly from an economic point of view, though this point was only made indirectly) the limit should be set on individual wages and not the wage bill of enterprises. It would be important to take rapid action, since this would be well received by the foreign commercial banks which felt that incomes policy tended to be a rather weak instrument in Yugoslavia. It was agreed by Mr. Dragan that this issue would again be taken up with Mr. Mentre in early May.

The effectiveness of monetary policy in dampening domestic demand was clearly affected by the rapid growth of interenterprise credits and the drawing down of foreign exchange accounts. Clearly, the May law increasing the power of the SDK was expected to dampen the growth of interenterprise credits, but the June discussion relating to the appropriate rate of growth of NDA would have to take into account that growth figures for NDA in fact exaggerated the effective degree of monetary restraint. Governor Makić replied that monetary policy was extremely restrictive. The use of NDA rather than domestic credit had made the policy difficult to implement from a technical perspective. He wondered whether in fact the Fund could ever judge any policy to be too restrictive. He agreed on the need to control interenterprise credits; to synchronize monetary policy with policy measures taken in other fields; but noted complaints from the bankers' association and wanted in June to review the effects of monetary policy on the growth of real output. A decline in domestic production would pose a major danger to the Yugoslav economy. There would possibly be a case for arguing for any improved revision in the NDA ceilings at the time of the June review.

Mr. Veljković made an impassioned plea that commodity credits from abroad which now would be funneled to domestic enterprises through domestic banks rather than being extended directly to domestic enterprises--which had been the earlier procedure--be excluded from domestic credit ceilings. Formerly, because these credits did not flow through the banking system, they were not counted as domestic bank credit; banks were now very hesitant to intermediate such credits since they were included in their ceilings. It was hoped that such credits, that were desperately needed, would total US$1 billion in 1983--Din 80 billion--but this could not be accommodated under the targets for the growth of NDA. This issue had been taken up with Mrs. Junz in February, and she had expressed sympathy and agreed to consider it further. The situation was getting desperate, and Mr. Veljković very much hoped that it could be resolved by May 9, when the staff visit resumed. The issue was to be taken up in Washington this week.

Mr. Mentre responded that in his view the ceilings were set appropriately, but this could be reviewed at midyear. It was unlikely that any formal change could be implemented before then. However, the matter would be considered immediately, and it would be useful if the Yugoslav delegation to the Development Committee brought with it a list of the suppliers' credits likely to be taken up before end-June (see Attachment IV). Mr. Mentre stressed that, taking into account interenterprise credits, monetary policy could not be seen to be too tight, but in June there would be a comprehensive review. Mr. Dragan stated that it would be very difficult to secure any significant decrease in such credits until at least the second half of the year.

Turning to interest rates, Mr. Mentre noted that there was a need to raise them to achieve the same real interest rates that were agreed with them at the beginning of the year. He also stressed the importance of taking substantial action on credits granted at concessional rates, and supported the IBRD proposal for a minimum lending rate of at least 18 per cent. Rapid action on interest rates would provide important encouragement to the international financial community. Mr. Dragan responded that the letter on development policy to be agreed with the World Bank would be finalized in the next few days. He noted that the adoption of an 18 per cent minimum lending rate was inconsistent with the fight against inflation that the Yugoslav authorities wished to--and were being encouraged to--pursue. By implication, he suggested that the Fund should have patience and wait for the rate of inflation to decelerate, giving rise to a positive real interest rate at a constant nominal rate.

Mr. Mentre noted that it would be important to review the appropriateness of the exchange rate at midyear, and that the implications of the foreign exchange law had to be carefully examined. It was essential that this law support economic efficiency, particularly in terms of promoting the production of traded goods, and it was not clear to the staff that it did substantially improve the allocation of foreign exchange. The law would be reviewed in great detail, at the latest by June, and the staff would hope to come to the discussions with some ideas or concrete proposals that would further the ultimate objectives of the authorities to enhance the efficiency of foreign exchange allocation.

In concluding the discussions, Mr. Mentre noted that the Fund's preliminary external cash flow projections were considerably more pessimistic than those of the Yugoslav authorities, largely on account of less optimistic expectations for tourism and workers' remittances on the current account side, and on the realization of disbursements from the financial support package. Thus the need for adjustment was even greater than earlier foreseen, and was magnified by some slippage that had been registered domestically in the early months of 1983.

D. Ripley DR

Attachment I : Domestic Demand Table
Attachment II : Cash Flow Projections
Attachment III: Memorandum for Files on Fiscal Performance Criterion
Attachment IV : List of Materials to be Brought by Yugoslav Delegation to Development Committee Meetings

cc: Mr. Whittome
Mr. Mentre
Mr. Brimble
Mr. Manison
Mr. Lewis
Mr. Petersen

ATTACHMENT I

Yugoslavia: Developments in Domestic Demand

(Percentage change; in 1980 prices)

	1982 Estimate as of		1983			
	Dec. 1982	Apr. 1983	Official Plan	Staff forecast	Actual estimate in first two months	Indicator 1/
National accounts						
Private consumption	-2.5	0.5	-6.0	-2.0	-1.6	Volume of retail sales fell by 1.7 per cent and lower decline in green market.
Public consumption	-1.8	-1.8	-0.3	-5.0	-3.0	Assumes public consumption rises in line with other public sector expenditures of around 30 per cent in nominal terms.
Gross fixed investment	-6.3	-6.3	-20.0	-7.0	-8.0	Nominal fixed investment outlays rose by 15 per cent; assuming increase in price inflator of 25 per cent which is probably an overestimate since industrial producer prices of investment goods rose by 18.5 per cent.
	-3.7	-2.0	-10.0	4.0	-3.8	

Remarks:

Program for 1983 starts from higher domestic demand levels than assumed in December 1982 since latest national accounts figures show that real total domestic demand rose marginally in 1982 instead of falling by 2 per cent as had been estimated earlier.

1/ Indicators refer to first two months of 1983 in comparison with same period of 1982.

This difficulty needs to be brought to the immediate attention of the Yugoslav authorities and can perhaps be resolved at the time of the planned staff visit in early May.

Paul Mentré

ATTACHMENT III

Office Memorandum

MEMORANDUM FOR FILES

April 21, 1983

Subject: Performance Criteria Governing the May Drawing by the Yugoslav Authorities

Performance criteria governing Yugoslavia's access to additional Fund resources prior to August 15, 1983 relate, inter alia, to the development of the real exchange rate, the development of net domestic assets, the extension of credit by the National Bank of Yugoslavia to the Federal Government, developments in external indebtedness, and the development of the public finances. At this time our concern centers on the last criterion.

The decision on the stand-by review for Yugoslavia states that: Yugoslavia will not make any purchase during the period in which..."the intention relating to public sector expenditures as stated in sentence 3, 4, and 5 in the first paragraph of section III of the supplement are not being observed...." The relevant sentences state that: "If revenue collections for the public sector on the basis of these data exceed the year-on-year growth of 18 per cent, they are to be adjusted downward through rate cuts in the subsequent months. Therefore, any trend increase in public sector revenues or in revenues for collective consumption for any period of three successive months will be taken as not commensurate with the program agreed in the letter of intent. A deviation of 2 percentage points will be acceptable."

These sentences do not specify the precise period covered by this undertaking, but the first sentence of the same paragraph suggests that the period to which this criterion relates started in January 1983, so that the first three-month period referred to would be January-March. Yugoslavia has already exceeded the revenue target in two consecutive months which should have triggered the mechanism to reduce tax rates. Rather the authorities appear to have raised indirect tax rates in early April, and we are unaware of any offsetting tax reductions that would prevent the conditions laid down in sentence 3 of the annexed letter of intent from being violated. This suggests that Yugoslavia is not fully observing this performance criterion.

To bring fiscal developments into conformity with this criterion, it would be necessary to reduce the overall tax before the end of April. Even if this were done, the revenue target for March might still be exceeded.

The report states that "...The authorities have agreed that a breach of either one of the expenditure ceilings will trigger the legislative process enabling them to freeze excess revenues in a blocked account of the National Bank of Yugoslavia." Early action, with the placement of excess revenues in a blocked account before the May drawing, might suffice to make this drawing possible.

Yugoslavia: Balance of Payments Position with the Convertible Currency Area, 1983

(In millions of U.S. dollars)

	1st Qtr.	2nd Qtr.		3rd Qtr.		4th Qtr.		Total Year		
	Actual	Yugoslav proj.	Alt. proj.	Yugoslav proj.	Alt. proj.	Yugoslav proj.	Alt. proj.	Yugoslav proj.	Alt. proj.	Program proj.
Exports	1,421	1,550	1,500	1,700	1,575	1,800	1,650	6,471	6,146	6,300
Imports	-1,915	-2,300	-2,300	-2,500	2,400	-2,735	2,500	-9,450	9,115	8,600
Trade balance	-494	-750	-800	-800	-825	-935	-850	-2,979	-2,969	-2,300
Invisibles (net)	227	445	230	1,050	1,045	693	600	2,415	2,102 1/	1,800
Current account	-267	-305	-570	250	220	-242	-250	-564	-867	-500
Medium- and long-ter debt	114	197	-5	442	-28	115	27	868	107	707
Drawings	451	423	220	1,975	1,505	877	790	3,726	3,006 2/	3,750
Repayments	-311	-191	-191	-1,483	-1,483	-723	-723	-2,708	-2,708	-2,843
Loans extended	-26	-35	-35	-50	-50	-39	-40	-150	-151	-200
Short-term debt	-200	50	--	100	--	50	--	--	-200	--
Errors and omissions	173	-50	--	-73	--	-50	--	--	173	--
Total	-180	-108	-576	719	192	-127	-223	304	-787	207
IMF credits (net)	174	118	118	52	52	70	70	414	414	421
BIS credits (net)	--	500	450	-250	-200	-250	-250	--	--	--
Change in reserves	-6	510	-8	521	44	-307	-403	718	-373	628

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

1/ The alternative projection for services is mainly the same as the Yugoslav projection, except in the case of receipts from services which have been reduced by US$300 million, other services by US$50 million, and the timing of workers' remittances between the second and third quarters.

2/ The implementation of the loan package is assumed to take place in the third quarter, but the disbursements are assumed to be postponed so that US$200 million in bank financial credits and US$500 million in government and government-guaranteed suppliers' credits may well be undisbursed at the end of 1983.

ATTACHMENT II

ATTACHMENT IV

Materials to be Brought by the Yugoslav Delegation to the Development Committee Meetings

1. Translation of March 30 law aimed at freezing excess public sector revenues and instructions given to the public auditing service.
2. Details of recent changes in taxation rates and contribution rates for collective consumptions and their impact on revenues.
3. SOAPSTENJE showing growth of public sector revenues in the first three months of 1983.
4. Translation of the May law enhancing the powers of the SDK and changing the priorities for the settlement of claims by enterprises.
5. List of suppliers' credits that the authorities hope to take up before end-June (and changes in institutional/accounting procedures between 1982 and 1983 relating to the treatment of suppliers' credits?).

cc: PM
CED
LAW

Copy to: Mr Robichek

APR 26 1983

Office Memorandum

CONFIDENTIAL

April 21, 1983

To: The Managing Director

From: P. Mentre

Subject: Staff Visit to Yugoslavia

A staff team headed by myself and comprising Ms. Ripley, Mr. Manison, Mr. Lewis (all EUR), Mr. Brimble (STAT), and Mr. Petersen (ETR), with Mrs. Watson (ETR) as secretary, visited Belgrade from April 18 through April 22 to review with the Yugoslav authorities recent developments both in the domestic economy and in the balance of payments against the aims set out in the stabilization program and the evolution of the financial package of governments and banks. Discussions were held with Mr. Dragan, Vice-President of the Federal Executive Council, Mr. Florjančič, Minister of Finance, and Mr. Makić, Governor of the National Bank of Yugoslavia, as well as with other government officials and representatives of the National Bank, on the current economic setting and prospective policy measures. The purpose of this quarterly review was to check compliance with the performance criteria under the stand-by arrangement before the May drawing and obtain timely information in order to ascertain what measures might be needed at the time of the mid-year review. Discussions were initiated with the Yugoslav authorities on the measures they themselves had in mind and on the types of measures that the Fund might wish to see implemented, even before the mid-term review. Decision-taking is a lengthy process, and the Yugoslav authorities may find it useful to discuss among themselves in May, at the time of the review of the annual plan resolution, additional measures that are necessary.

Mr. Mentré
We should help them formulate the new measures which are clearly indispensable. **
JL
Avril 26.83

1. The domestic and external situation of the Yugoslav economy

The data for the first quarter of 1983 are at best incomplete. However, there are indications that the intentions and projections underlying the stabilization program agreed in late 1982 have not been fully realized. Most importantly, the expected compression of domestic demand has not materialized to the degree we were expecting. The estimated fall in real wages is in line with projections, only on account of a higher than expected rate of inflation that can only partly be accounted for by the depreciation of the dinar and administered price changes. Retail sales, however, showed only a slight decline in real terms (-1 per cent to -2 per cent) on account of income developments outside the social sector, of developments in general and collective consumption expenditures, and the use of foreign exchange accounts held by Yugoslav citizens. The rapid rise in the general price level has had the effect of reintroducing distortions in relative prices that the agreed adjustment in administered

** Mr. Mentré

We should help them formulat
the new measures which are
clearly indispensable.

JL 4/26/8

prices had looked to eliminate or diminish. However, the authorities are determined to resist further nominal increases in the prices for these goods because of their inflationary impact. (The IBRD in its SAL agreement will be seeking to increase energy prices in real terms, most from 1984.) Against expectations, industrial production held up relatively well in the first quarter despite a shortage of imported inputs. Imports from the convertible currency area in the first quarter did not reflect the relative buoyancy of domestic demand as foreign exchange constraints intensified.

On the external side the trade balance with the convertible currency area showed considerable improvement, but on closer examination, the prospects for sustaining this improvement appear severely limited: exports were bolstered and imports dampened, inter alia, by a shift in exports from the nonconvertible to the convertible area, and by increased raw material and oil imports from the nonconvertible area. 1/ In addition, tourism receipts were exaggerated by temporary distortions and, in fact, advance tourism booking for 1983 are down by 15 per cent in comparison with 1982. The Yugoslav authorities felt that Yugoslav products were price competitive, if only on account of their active exchange rate policy, but that the low level of stocks of imported goods was hampering the production process, as was restrictive monetary policy.

The authorities indicated that in the next few days they would clear up outstanding interest arrears from a fund set up by the more creditworthy Yugoslav banks. However, there had been some capital leakages as banks repaid principal and the reserve position remained precarious.

by mistake?

by mistake?

2. The stance of policies

At the time of the discussions, the targets set for the development of the real exchange rate and for the increase in net domestic assets were being observed. Monetary restraint, in fact, was not proving as effective as expected on account of the rapid growth of interenterprise credits. The authorities were well aware of the dangers posed by the growth of these credits and in May would pass a law to be enforced by the social accounting service (SDK) changing the priorities according to which claims on enterprises' financial resources were to be satisfied. This law was expected to severely constrain both the growth of interenterprise credits and personal income payments for loss making firms. A further

---

1/ Projections for trade with the nonconvertible area as a whole are for the stability of exports (US$4.4 billion) and an increase in imports from US$3.7 billion to US$4.6 billion. Despite additional imports of crude oil from the Soviet Union (1 million tons or US$200 million) this strong rise in the value of imports is unlikely to be attained: because of the expected further weakening in import prices from this area of 5 per cent, on account of the dominance of raw materials and oil in these imports, a real rise of some 30 per cent would have to be realized.

strengthening the role of the SDK and of regulations to improve the financial discipline of enterprises are foreseen for September if there is not a sharp decline in the volume of interenterprise credits outstanding.

At the end of 1982 the Yugoslav authorities noted that nominal personal incomes in the first quarter of 1983 should remain at the level attained in the fourth quarter of 1982, and that year-on-year real wages should decline on average by 7 1/2 per cent. The nominal targets appear to have been exceeded, but further action is contemplated when complete data for the first quarter becomes available. In addition to the legislative measures affecting the priority of payment noted above, Mr. Dragan stated that consideration was being given to a federal law setting limits on the rate of increase of the nominal wage bill of enterprises. We argued that the limit should pertain to individual wages and not the wage bill of enterprises. This issue will be taken up again in early May.

The stabilization program foresaw an increase in general and collective consumption expenditures (or of government revenues) of no more than 18 per cent during the course of 1983, and expenditures in the first quarter stabilized in nominal terms at the average quarterly level for 1982. Recent data suggest a faster growth of government revenues, and by implication, of government expenditures. The authorities have reduced some tax rates to hold down the growth of revenues, but certain turnover tax rates were increase in April. Most importantly, the Yugoslav authorities have adopted a new law as of March 31 according to which excess rises in revenues over the first seven months of the year (above limits of 11 per cent for sociopolitical communities excluding the federal government and of 13 per cent for communities of interest providing collection consumption) would be placed in blocked accounts for an extended period. This proposal differs from that of the Fund, but is somewhat more restrictive and is to be welcomed if vigorously implemented. The mission argued for its immediate and rigorous implementation as of May 1 so as to sterilize effectively the excess revenue and demonstrate the commitment of the Yugoslav authorities to pursue a more restrictive fiscal policy prior to the May drawing. The authorities have agreed to provide us with convincing evidence that the law is in place and excess revenues are being blocked before the May drawing.

The Yugoslav authorities have followed the agreed exchange rate policy, depreciating the dinar in nominal effective and real terms by about 20 and 15 per cent, respectively, since end-1982. It has emerged that exchange rate incentives are enhanced by a series of rebates and export subsidies, though since an active exchange rate policy has been pursued, this rebate scheme has diminished in importance. A transitional foreign exchange law governing the allocation of foreign exchange receipts has been in place since the first quarter of 1983. It is hoped that the law will take its final form by end-June and increase integration of the foreign exchange market.

The difficulties caused by the present system for allocating foreign exchange and the accompanying fragmentation of this foreign exchange market dampen export incentives and give rise to import decisions that do not reflect a realistic valuation of scarce foreign exchange receipts. While the amended foreign exchange law attempts to alleviate some of the shortcomings of this system it may, in the process, give rise to others: the incentive to export for firms with large foreign exchange earnings is likely to be reduced by the proposed allocation system. Moreover, it is evident that conflicting interests in the economy are becoming increasingly difficult to reconcile. It was argued that every effort should be made to assure the efficiency of the system for foreign exchange allocation. This matter will be addressed again at the time of the mid-year review, if not in early May.

* We should propose some precise ideas here

* We should propose some precise ideas here.

In this connection, it is also extremely important that realistic guidelines be established for the distribution of the new funds that become available under the Berne agreement and the commercial bank financing package. A law was passed in March indicating that suppliers' credits should be allocated so as to maximize foreign exchange earnings and it is foreseen that trade credits provided by individual countries under the Berne agreement will be handled by individual commercial banks, but the details have still to be finalized.

3. Financing requirements

The gross financing requirement for Yugoslavia in 1983 is now expected by the Fund staff to be substantially higher than foreseen at the beginning of the year. Leakages through the capital account and a further weakening in the prospects for the current account must be set against a government support package whose quality is far less than previously expected. According to Yugoslav estimates, about one third of the total is unusable since it consists of credits for investment goods the Yugoslavs are unwilling to import (see attached table). For a number of countries bilateral negotiations are still being held on terms and conditions. Once these are agreed, there will still be a substantial time delay before imports obtained with these credits are received. For 1983 as a whole, as little as US$500 million of the government package of suppliers' credits may be disbursed, with the remainder being disbursed coming in early 1984. Because suppliers' credits under the Berne package are likely to require the intermediate of Yugoslav banks, the methodology for setting the NDA target will have to be reviewed very shortly.

The banks would appear to be making encouraging progress, though delays have been experienced here also. The reconciliation of the data on which the distribution of "new money" is to be based is in the process of being completed. At the Zurich meeting held on April 16, bank representatives stated that they expected to put their financing package in place by end-June. But uncertainties remain on the effective timing of disbursements of the US$600 million in new bank loans if banks insist on parallelism with governments. It was felt that the Zurich meeting of the banks and governments had expedited the finalization of the bank package as well as provided encouragement for the BIS to proceed with its long-awaited disbursement of US$500 million. 1/

The IBRD portion of the financing package appears on track, though a few difficulties, largely pertaining to exemptions from the proposed minimum lending rate, still remain. A paper to the Bank board is to be expected in late June with disbursements to take place in two tranches, the first pertaining to disbursements in the second half of 1983 and being somewhat larger than that for the first half of 1984. The total amount involved is not expected to exceed US$250 million.

All in all the financing gap foreseen at this time under an unchanged stance of policies is substantial, in view of Yugoslavia's need to build up reserves prior to the seasonally unfavorable first half of 1984. Thus, clearly further adjustment efforts are called for; additional financial support would certainly be welcomed but is unlikely to be forthcoming.

yes

4. The work of the Fund

The current staff visit has alerted the Yugoslav authorities to our concerns about the undue strength of domestic demand in the current setting and the weakness of the external position, concerns that they apparently share and in response to which they are contemplating action in a number of areas. Mr. Florjancic will be attending the Development Committee meetings in Washington and hopes to call on you. Plans have been made for him to meet with Mr. Whittome to review with him the current situation of the Yugoslav economy and prospects for implementation of further measures. Our concerns could be expresesd at this stage in a more formal way.

These discussions will be followed in early May by an informal staff visit to hold discussions with banks and enterprises and to seek their views on the economic situation and problems that may arise at the micro level in carrying out the stabilization program. Policy discussions with the authorities will also be held on the implementation of measures in a number of fields. Further statistical information will be collected in Belgrade that is either essential for the May 15 drawing or will be needed for the mid-year review which is scheduled to start on May 30 for a period of three weeks.

1/ According to the Yugoslav authorities it appears that the BIS credit will be disbursed in April with repayments scheduled to take place on May 15 (US$50 million), August 15 (US$200 million) and November 15 (US$250 million). It is unclear as to whether in fact all of the US$500 million will be disbursed in April, or whether only the US$300 million tranche has been released.

It was stressed that the Yugoslav authorities should take early corrective action--even before the mid-year review--so as to increase control over public sector expenditures and interenterprise credits, since these obviously provide excessive support for domestic demand. Further movement in interest rates is clearly called for, if only in view of price developments, and will be again emphasized. In addition, wage policy remains a weak element of the Yugoslav stabilization program, and more forceful Federal action such as limiting the quarterly rate of rise in nominal wages in the economic and noneconomic sectors will be explored further. The appropriateness of the exchange rate--and the distortions emerging from the current foreign exchange law--will be reviewed against the most recent developments in the current account and in the light of the discussion with bank and enterprises. In addition to eliminating any slippage in the initial program, further measures to reduce domestic demand and increase exports would soon be called for given the external payments position and the weakness of the financial support package.

Attachment

cc:

Deputy Managing Director
Mr. Habermeier
Mr. Hood
Mr. Whittome
Mr. Finch
Mr. Mohammed
Mr. Nicoletopoulos
Paris Office
Mr. Carter
Mr. Shaalan
Mr. Tun Thin
Mr. Wiesner
Mr. Zulu
Mr. Robichek

530
125
405

19.1.1983: FINAL PLEDGE

Country	Amount (in mio)	Nature	Duration (years)	Remarks
D	530 DM (225 $)	export credits (for raw materials, semi-finished products and products of vital needs)	3 - 5	possibly with a transformation of part of it into financial assistance
F	1 bio FF (150 $)	export credits	> 3	possibly with a transformation of part of it into financial assistance (50 % of German financial assistance but not exceeding 100 mio FF)
I	135 $	export credits	5 - 6	credits on concessionary terms or grants: 10 - 20 %
B	25 $	13 $: financial credits	3 - 5	
		12 $: export credits 7 $: semi-finished products, raw materials, etc. 5 $: capital goods		
NL	50 $	25 $: financial credits	> 3	
		25 $: export credits	3 - 5	
GB	125 $	65 $: refinancing credits	2 - 5	
		60 $: financial credits	3 - 5	
DK	125 dKr (15 $)	export credits	3 - 5	
A	100 $	40 $: financial credits	3	
		60 $: export credits (semi-finished products)		
N	175 nKr (25 $)	5,7 $: financial credits (40 nKr)		
		19,3 $: export credits (135 nKr)	3 - 5	
S	20 $		> 3	composition financial/export credits not yet decided
SF	10 $	export credits	3 - 7	subject to approval by the relevant authorities
CH	90 $	50 $: financial credits	7	
		40 $: export credits	3 - 5	
USA	300 $	60 (68) $: financial credits	> 3	
		240 $: export credits (mostly agricultural products)	3	
Cdn	40 $	export credits	> 3	US$
J	52,5 $	8,5 $: export credits	medium term	
		22 $: financial credits		
		(22 $: short-term credits)	< 1	
	1'362,5 $			

716

Mr. Whittome

Office Memorandum

CONFIDENTIAL

April 21, 1983

To: The Managing Director

From: P. Mentre

Subject: Staff Visit to Yugoslavia

A staff team headed by myself and comprising Ms. Ripley, Mr. Manison, Mr. Lewis (all EUR), Mr. Brimble (STAT), and Mr. Petersen (ETR), with Mrs. Watson (ETR) as secretary, visited Belgrade from April 18 through April 22 to review with the Yugoslav authorities recent developments both in the domestic economy and in the balance of payments against the aims set out in the stabilization program and the evolution of the financial package of governments and banks. Discussions were held with Mr. Dragan, Vice-President of the Federal Executive Council, Mr. Florjančič, Minister of Finance, and Mr. Makić, Governor of the National Bank of Yugoslavia, as well as with other government officials and representatives of the National Bank, on the current economic setting and prospective policy measures. The purpose of this quarterly review was to check compliance with the performance criteria under the stand-by arrangement before the May drawing and obtain timely information in order to ascertain what measures might be needed at the time of the mid-year review. Discussions were initiated with the Yugoslav authorities on the measures they themselves had in mind and on the types of measures that the Fund might wish to see implemented, even before the mid-term review. Decision-taking is a lengthy process, and the Yugoslav authorities may find it useful to discuss among themselves in May, at the time of the review of the annual plan resolution, additional measures that are necessary.

1. The domestic and external situation of the Yugoslav economy

The data for the first quarter of 1983 are at best incomplete. However, there are indications that the intentions and projections underlying the stabilization program agreed in late 1982 have not been fully realized. Most importantly, the expected compression of domestic demand has not materialized to the degree we were expecting. The estimated fall in real wages is in line with projections, only on account of a higher than expected rate of inflation that can only partly be accounted for by the depreciation of the dinar and administered price changes. Retail sales, however, showed only a slight decline in real terms (-1 per cent to -2 per cent) on account of income developments outside the social sector, of developments in general and collective consumption expenditures, and the use of foreign exchange accounts held by Yugoslav citizens. The rapid rise in the general price level has had the effect of reintroducing distortions in relative prices that the agreed adjustment in administered prices had looked to eliminate or diminish. However, the authorities are determined to resist further nominal increases in the prices for these goods because of their inflationary impact. (The IBRD in its SAL agreement will be seeking to increase energy prices in real terms, most from 1984.) Against expectations, industrial production held up relatively well in the first quarter despite a shortage of imported inputs. Imports from the convertible currency area in the first quarter did not reflect the relative buoyancy of domestic demand as foreign exchange constraints intensified.

On the external side the trade balance with the convertible currency area showed considerable improvement, but on closer examination, the prospects for sustaining this improvement appear severely limited: exports were bolstered and imports dampened, inter alia, by a shift in exports from the nonconvertible to the convertible area, and by increased raw material and oil imports from the nonconvertible area. 1/ In addition, tourism receipts were exaggerated by temporary distortions and, in fact, advance tourism booking for 1983 are down by 15 per cent in comparison with 1982. The Yugoslav authorities felt that Yugoslav products were price competitive, if only on account of their active exchange rate policy, but that the low level of stocks of imported goods was hampering the production process, as was restrictive monetary policy.

The authorities indicated that in the next few days they would clear up outstanding interest arrears from a fund set up by the more creditworthy Yugoslav banks. However, there had been some capital leakages as banks repaid principal and the reserve position remained precarious.

2. The stance of policies

At the time of the discussions, the targets set for the development of the real exchange rate and for the increase in net domestic assets were being observed. Monetary restraint, in fact, was not proving as effective as expected on account of the rapid growth of interenterprise credits. The authorities were well aware of the dangers posed by the growth of these credits and in May would pass a law to be enforced by the social accounting service (SDK) changing the priorities according to which claims on enterprises' financial resources were to be satisfied. This law was expected to severely constrain both the growth of interenterprise credits and personal income payments for loss making firms. A further

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The difficulties caused by the present system for allocating foreign exchange and the accompanying fragmentation of this foreign exchange market dampen export incentives and give rise to import decisions that do not reflect a realistic valuation of scarce foreign exchange receipts. While the amended foreign exchange law attempts to alleviate some of the shortcomings of this system it may, in the process, give rise to others: the incentive to export for firms with large foreign exchange earnings is likely to be reduced by the proposed allocation system. Moreover, it is evident that conflicting interests in the economy are becoming increasingly difficult to reconcile. It was argued that every effort should be made to assure the efficiency of the system for foreign exchange allocation. This matter will be addressed again at the time of the mid-year review, if not in early May.

In this connection, it is also extremely important that realistic guidelines be established for the distribution of the new funds that become available under the Berne agreement and the commercial bank financing package. A law was passed in March indicating that suppliers' credits should be allocated so as to maximize foreign exchange earnings and it is foreseen that trade credits provided by individual countries under the Berne agreement will be handled by individual commercial banks, but the details have still to be finalized.

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It was stressed that the Yugoslav authorities should take early corrective action--even before the mid-year review--so as to increase control over public sector expenditures and interenterprise credits, since these obviously provide excessive support for domestic demand. Further movement in interest rates is clearly called for, if only in view of price developments, and will be again emphasized. In addition, wage policy remains a weak element of the Yugoslav stabilization program, and more forceful Federal action such as limiting the quarterly rate of rise in nominal wages in the economic and noneconomic sectors will be explored further. The appropriateness of the exchange rate--and the distortions emerging from the current foreign exchange law--will be reviewed against the most recent developments in the current account and in the light of the discussion with bank and enterprises. In addition to eliminating any slippage in the initial program, further measures to reduce domestic demand and increase exports would soon be called for given the external payments position and the weakness of the financial support package.

Attachment

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Deputy Managing Director
Mr. Habermeier
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Mr. Wiesner
Mr. Zulu

19.1.1983: FINAL PLEDGE

130
125
405

Country	Amount (in mio)	Nature	Duration (years)	Remarks
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GR	125 $	65 $: refinancing credits	2 - 5	
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J	52,5 $	8,5 $: export credits	medium term	
		22 $: financial credits		
		(22 $: short-term credits)	< 1	
	1'362,5 $			

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c.c. HBJ
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WASHINGTON, D.C., U.S.A.

RCA 248331/225172

ATENTION: BRIAN ROSE 9.120

PLEASE FIND COPY OF TELEX SENT BY MENTRE TO HBJ IN BUDAPEST.
PLEASE MAKE SURE THE MESSAGE REACHES HER.
[THE ADDITIONAL VISIT AT THE BEGINNING OF MAY WILL BE LARGELY
DEVOTED TO CONTACTS WITH BANKERS AND ENTERPRISES SINCE WE HAD
THE SUBSTANTIVE DISCUSSIONS THIS WEEK. I DO NOT THINK THEREFORE
THAT YOUR PARTICIPATION IS NEEDED. THANK YOU FOR YOUR COOPERATION.
GOOD LUCK WITH YOUR WORK. BEST REGARDS. MENTRE.]
RIPLEY

12717 MOSKVA YU

440040 FUND UI

REPLY VIA ITT

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TIME: 05:42 04/21/83 EST
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yugoslavia
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12717 MOSKVA YU
12717 MOSKVA YU

INTERNATIONAL MONETARY FUND
INTERFUND
WASHINGTON, D.C. U.S.A.

RCA 248331/225172
248331/225172 IMF UR

ATTENTION: ~~MISS DANIELS~~ 9.120

MAY MISSION MOST PROBABLY SCHEDULED FOR MAY 9 TO MAY 14 TO VISIT BELGRADE AND ZAGREB. SECRETARY REQUESTED TO ACCOMPANY TEAM OF THREE /MENTRE, LEWIS, PETERSEN/. WOULD RECOMMEND THAT JAN SMART JOIN.
REGARDS
RIPLEY

12717 MOSKVA YU

440040 FUND UI

Called Ms. Smart
aS. 4/21

April 20, 1983

MEMORANDUM FOR FILES

Subject: Status of the Governmental Financial Support Package of Yugoslavia

This morning Mr. Petersen and I met with Mr. Mir, Assistant Secretary of the Federal Secretariat for Foreign Trade, and with Mr. Šarenac of the National Bank, to discuss the progress that had been made in finalizing the agreements contained in the Berne memorandum. The amounts and conditions associated with the support from the different Governments are summarized in the attachment. He queried whether the Schultz proposal to extend government guarantees on debt that was rolled over by banks would very much affect the financial support provided by the United States or other participating countries. He personally had heard little about the proposal and was unaware of a positive response.

The German package totaled DM 530 million, of which DM 111.149 million was the amount to be rolled over, and DM 418.851 million was to consist of export credits with maturities of 3-5 years. The export credit package had essentially been agreed. These credits would carry a going rate of interest under the OECD guidelines for export credits, which Mr. Mir thought was now about 8 per cent. Credits of up to DM 100,000 and more than DM 500,000 would bear maturities of five years. These credits could be used virtually for any products of German origin, and as a result it was not thought that there would be any difficulty whatsoever in taking these up. Yugoslav bankers were now in Bonn discussing the possibilities of drawing on these credits and it was hoped that some orders could be placed within a fortnight. The maturity for the credit to be rolled over was established in the Berne memorandum at 3-5 years, but Mr. Mir thought that the discussions between the German authorities and the German banks might give rise to an extension of this maturity to six years. The roll over matched exactly both the German estimates and those of the Yugoslav authorities of the commercial bank credits falling due in 1983; our figures from the second Berne meeting indicate maturities falling due of some $80 million, but the coverage of this figure is very much wider than the coverage of the Yugoslav figure, including, inter alia, unguaranteed suppliers' credits and short-term credits. For many of the other countries in the Berne package, the Yugoslav estimates of credits falling due were substantially less than those suggested to Mrs. Junz at the January 17 meeting in Berne.

The situation with France was somewhat complicated. There existed as of the end of 1982 two credit lines, each totaling FF 250 million. The agreement on the second credit line was reached on December 6, 1982, and all of this credit line was included in the French contribution to the support package totaling FF 1 billion. Each of these credit lines was divided into two portions, the first portion amounting to FF 150 million to be used for the import of raw materials and semifinished manufactures, and the second tranche, amounting to FF 100 million, to be used for the import of small machinery and equipment. In addition to including the total of the FF 250 million second credit line in the French contribution, they also included some FF 69 million of the first tranche, which consisted of credits exclusively available for the purchase of small machinery. An additional FF 681 million of credit was to be provided in the following manner: FF 400 million would be available in the form of commodity credits, one quarter of this amount being available to provide 15 per cent down-payments on credits to be guaranteed by COFACE, and the remaining three quarters to cover the remaining 85 per cent of the value of the contracts. The final FF 281 million posed a problem that had yet to be resolved. The French authorities wanted this sum to be used for the financing of some as yet ill defined projects, but the Yugoslav authorities did not know what the French had in mind, and in any event would be unwilling to go forward with new investment projects. The Yugoslav authorities were trying to encourage the French to convert at least a portion of this sum to commodity credits that could, in fact, be of use to them at this time. The commodity credit portion of the second credit line, totaling FF 150 million, had already been used up, according to Mr. Mir. The French package did not provide for any roll over of credits falling due in 1983. The Yugoslav authorities estimated amortization payments in 1983 at $80 million. Mr. Mir thought that there would be substantial difficulties in reaching agreement with the French banks in view of the reluctance of the French Government to support the roll over of bank credits. In connection with the French contribution, Mr. Mir noted that France was a very large exporter of equipment to Yugoslavia, with some 50 per cent of its exports in the form of machinery and equipment; this share was much larger for France than for Germany. The French authorities offered either to denominate their financial support package to Yugoslavia in terms of deutsche mark, with interest rates of 8 1/2-9 per cent, or in U.S. dollars, with associated medium-term U.S. dollar interest rate. The Yugoslavs had chosen to have the French support package denominated in deutsche mark.

The Italian package of $135 million was denominated in dollars with an interest rate of perhaps 10 per cent. Of this total, $105 million was in the form of commodity credits and its use was essentially unrestricted. Thirty million was in the form of a heavily subsidized long-term loan that, in principle, was to be connected with a particular project. The Yugoslavs were hesitant to accept a loan connected with an investment project, even if this loan were heavily subsidized with a suggested maturity of 12 years and an interest rate of 4 per cent. They were arguing with the Italians for an integrated package consisting exclusively of commodity credits but with terms that would be a blend of the subsidized terms and those now suggested by Italy for the commodity credit portion of the financial package; they were thinking of an average maturity of perhaps eight years. The borrower was not yet agreed upon. The Yugoslav authorities were anxious that the Italian credits be taken up by Yugoslav commercial banks and had offered central bank guarantees; the Italians were likely to agree to this arrangement.

Mr. Mir hoped that the convention with the Italian authorities could be signed shortly. After signing, it would have to pass through Parliament for ratification, and it was difficult to say how long this might take. The last convention that had been signed in October 1982 came into force this April, but clearly efforts would be made to compress this legislative delay. According to the Yugoslav statistics, $25 million were falling due to Italian banks in 1983, of which $8 million were denominated in lire, $14 million in U.S. dollars and $3 million in deutsche mark. The convention agreed last October was for Lit 56 billion for the purchase of commodities. These credits were to carry a maturity of five years and were denominated in lire.

The situation as regards Belgium was expected to be finalized shortly. The Yugoslav authorities had two representatives in Brussels discussing the Belgian contribution at the present time. The total Belgian support was estimated at $25 million, of which $13 million would be in the form of financial credits. It was uncertain as to whether new capital would be provided, or whether at least a portion of the $13 million would be used to finance credit falling due in 1983 (amortization in 1983 was estimated at under $6 1/2 million, with credits denominated both in Belgian francs and in U.S. dollars falling due). The export credits for capital goods ($5 million) would certainly not be used, but those for semifinished manufactures and raw materials ($7 million) would be drawn. It was thought that the Belgian credits would be denominated in U.S. dollars and would carry a maturity of 3-5 years.

The Dutch authorities would be visiting Belgrade on Monday (April 25) and no difficulty in finalizing arrangements with the Dutch was expected. Financial credits would be welcomed and export credits of an equal amount ($25 million) were totally unrestricted. Credits falling due to Dutch banks in 1983 were estimated to be less than $10 million.

Substantial progress had been made in finalizing the U.K. contribution to the Yugoslav financial support package. The U.K. contribution consisted of two portions, £38 million in the form of new financial credits, and £40 million in the form of roll overs. Of the new financial credits, £19 million had already been paid to the account of the National Bank of Yugoslavia, and another £19 million would be paid on August 15 to the BIS on Yugoslavia's account. The financial credits carried maturities of five years. The £40 million roll over covered, in Mr. Mir's opinion, almost all of the bank credits falling due in 1983. There was some £4 million of suppliers' credits falling due that were not covered, but it was thought that difficulties arising from these credits could be worked out by the banks in cooperation with the U.K. Government. The details relating to the £40 million roll over of credits had yet to be worked out, but would be discussed next month.

The contributions of Denmark ($15 million), Finland ($10 million), Norway and Sweden, were not thought to be very helpful. Those for Denmark and Finland were exclusively commodity credits for machinery and equipment, for which the Yugoslavs had no use, and it had not been possible to negotiate financial credits. The Norwegians had been pressed by the Yugoslav authorities to make a definite proposal, but thus far had done nothing and it was uncertain as to when they might take a decision. The Swedes were waiting for the entire support package, including the financial of the commercial banks and the bridging loan of the BIS, to be finalized before they proceed with their discussions with the Yugoslav authorities. The situation with the Canadians, whose contribution was set at $40 million, and the Japanese, with a contribution of $60 million, was equally unsatisfactory. The Canadians were keen to export airplanes, ski lifts and two-year old wheat. The Japanese were offering $25 million of medium-term buyers credits for machinery, some steel products and spare parts; $10 million in the form of suppliers' credits for the purchase of capital goods; and $25 million in the form of short-term buyers credits. Virtually all of this contribution was unusable, with the exception perhaps of some of the first $25 million which could be used to purchase steel products.

The Austrian contribution was very much welcomed. The $60 million of export credits was essentially unrestricted, and it was thought that some agreement would be reached on the disposition of these funds next week. The $40 million of financial credits would be passed on by the Austrian Parliament in the summer, so would not be immediately forthcoming. The amount falling due to Austrian commercial banks in 1983 was estimated at about $12 1/2 million.

The Swiss authorities tried to alter their financial support after the Berne meeting. They proposed a reduction, probably of financial credits, of $10 million, with this sum being made available along with an additional $50 million for the purchase of machinery and equipment. (The financial credits were to carry a seven year maturity.) The Yugoslav authorities again expressed their unwillingness to import machinery and equipment, and valued the Swiss support package at $80 million rather than the proposed $140 million. Less than $10 million was falling due to Swiss commercial banks in 1983.

The situation of the financial support to be provided by the United States remained somewhat unsettled. The United States apparently was still adhering to its commitments to provide no more than 20 per cent of the entire financial package. At the same time, the suggestion to increase the U.S. financial contribution in the form of roll overs from $60 million to $112 million was inconsistent with this 20 per cent, unless other governments agreed to increase their contributions by very considerable amounts. Even the $60 million was prepositioned on a total package of $1 1/2 billion, against the $1.35 billion package now foreseen. Most of the U.S. support would be provided by export credits for the purchase of agricultural products. Of this $240 million, $211 million had already been drawn upon for the purchase of edible oils, cotton, sugar, hides and skins...... It was thought that of this $240 million perhaps only some $60 million could be looked on as imports that would feed directly into the production process for exports; cotton imports were seen to be especially important for Yugoslavia's export performance. The commodity credits would carry maturities of three years with $50 million being provided at subsidized interest rates and the remainder at market rates. The Yugoslav authorities estimated that debt falling due to U.S. banks in 1983 amounted to $56 1/2 million.

When asked to estimate the value of the package agreed in Berne, taking into account the restrictions on export credits that were proposed by many countries, Mr. Mir set a figure of $650 million for usable export commodity credits; $160-170 million for new money; and $170 million for roll overs. Problems would certainly arise in trying to decide how to roll over credit should be distributed among Yugoslav debtors, and which producers should be given access to export credits. In the Official Gazette of March 11, general guidelines had been laid down according to which export credits should be allocated to maximize the impact on Yugoslav exports. New money would find its way into the reserves of the National Bank, which clearly needed to be bolstered. In Mr. Mir's opinion, and that of others, a revolving fund might well be established for export credits, with tenders by Yugoslav producers being reviewed and credits being allocated to those producers that would effect the highest rate of growth of exports. These exporters would be expected to repay credits to the National Bank or some other group in foreign exchange, not after a period of 3-5 years as suggested in the Berne memorandum, but after a period of 3-6 months. This foreign exchange would go into the revolving fund to be lent out to either the same exporters or new exporters, depending on their relative efficiency in earning foreign exchange. This proposal, however, was not finalized. Some similar proposal might be agreed with respect to the rolling over of debt; it was not at all clear to Mr. Mir that an efficient allocation of scarce foreign exchange would be furthered by simply rolling over the foreign debt of Yugoslav borrowers that happened to fall due in 1983. Rather this debt might be taken over by banks or groups of banks and a revolving fund set up to maximize export efficiency arising from this additional foreign exchange.

Mr. Mir seemed unaware of the large volume of commodity credits some countries claimed were in the pipeline, and the fact that some of these credits had been counted in the Berne package.

D. Ripley

Cc ~~ED~~ CED
Alice
Valerie ✓

IMF OFFICIAL CABLE

Rcv: @1IM/3.06322 Line: 3

1983 APR 19 AM 11: 20
CABLE
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248331 IMF UR

INFUND 610712F

INTERFUND PARIS, APRIL 19, 1983

INTERFUND
WASHINGTON DC

FOR: AUDREY DANIELS, EUROPEAN DEPARTMENT 9,120

PLEASE BE ADVISED THAT TELEPHONE NUMBER OF HOTEL MOSKVA IN BELGRADE IS: 68 62 55.

REGARDS
DE LEVA

248331 IMF UR

INFUND 610712F
Time: 11:15 04/19/83 EST
Connect Time : 66 seconds

Office Memorandum

APR 19 1983

TO : The Managing Director

DATE: April 19, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

I attach for your information a copy of the conclusions from the recent meeting in Zurich on financial assistance to Yugoslavia.

Attachment

cc: The Deputy Managing Director (on return)
Mr. Finch
Mr. Carter
CED

Mr. L.A. Whittome

CC: MD ✓
DMD
Carter
IIOS
CED
Fincl
HBS

The Ambassador of Switzerland

Washington, D.C. April 19, 1983

Dear Mr. Leland,

Please find enclosed an urgent message by State Secretary Probst, following the recent meeting in Zurich on Financial Assistance to Yougoslavia.

It contains the conclusions of the meeting as well as a request to provide the data on government action until April 30th, 1983, as agreed upon in Zurich.

A. Hegner

Copy to Mr. Cornell (Treasury)
Mr. Canner (Treasury)
Mr. Milam (State)

BY HAND

Mr. Marc E. Leland
Assistant Secretary for International Affairs
Department of the Treasury
Room 3430
15th Street & Pensylvania Ave. N.W.
Washington, D.C. 20220

DEAR SIR,

FOLLOWING THE MEETING ON FINANCIAL ASSISTANCE TO YOUGOSLAVIA WHICH HAS TAKEN PLACE IN ZURICH ON APRIL 16, I SHOULD LIKE, AS CHAIRMAN OF THE GROUP OF BERNE, TO CONFIRM TO YOU THE CONCLUSIONS AT WHICH WE ARRIVED. THEY ARE AS FOLLOWS:

THE MEMORANDUM OF UNDERSTANDING DATED JANUARY 19, 1983 PROVIDES IN ITS CHAPTER 4, PARAGRAPH 1, FOR A PROCEDURE OF REGISTRATION WITH THE CHAIRMAN OF THE GROUP OF THE ARRANGEMENTS FOR ECONOMIC / COOPERATION CREDITS DETERMINED BILATERALLY BETWEEN THE GOVERNMENT OR APPROPRIATE INSTITUTIONS OF EACH COOPERATING STATE AND THE GOVERNMENT OR APPROPRIATE INSTITUTIONS OF YOUGOSLAVIA. THE GOVERNMENTS ARE REQUIRED TO REGISTER WITH THE CHAIRMAN OF THE GROUP PERTINENT DETAILS OF THESE ARRANGEMENTS, INCLUDING DATES, AMOUNTS, TERMS AND CONDITIONS.

IN ORDER TO MEET THE WISH OF THE INTERNATIONAL COORDINATING COMMITTEE OF THE COMMERCIAL BANKS FOR MORE TRANSPARENCY ON ACTIONS TAKEN OR PLANNED BY GOVERNMENTS AND THEREFORE TO EXPEDITE THE CONCLUSION OF THE AGREEMENT BETWEEN THE COMMERCIAL BANKS AND YOUGOSLAVIA, THE REPRESENTATIVES OF THE 15 COUNTRIES PRESENT IN ZURICH HAVE AGREED THAT:

I) ALL GOVERNMENTS WILL TRANSMIT TO THE CHAIRMAN OF THE GROUP THE INFORMATION NEEDED TO ANSWER THE WISH EXPPESSED BY THE ICC. IT IS UNDERSTOOD THAT GOVERNMENTS WHICH HAVE NOT YET CONCLUDED BILATERAL ARRANGEMENTS WITH YUGOSLAVIA OR WHICH DO NOT HAVE TO CONCLUDE SUCH ARRANGEMENTS WILL INFORM THE CHAIRMAN OF WHAT THEY INTEND TO DO TO FULFIL THEIR PLEDGES.

II) GIVEN THE URGENCY, GOVERNMENTS WILL TRANSMIT THIS INFORMATION TO THE CHAIRMAN NOT LATER THAN APRIL 30.

III) THE CHAIRMAN IS AUTHORIZED TO COMMUNICATE THE INFORMATION RECEIVED, IN AN APPROPRIATE MANNER, TO THE ICC AND TO THE IMF.

IN ORDER TO FACILITATE THE COLLECTION OF DATA, IT WOULD BE EXTREMELY USEFUL IF GOVERNMENTS WOULD FOLLOW THE ENCOLSED DIAGRAM.
OF COURSE, THE AFOREMENTIONED PROCEDURE DOES NOT PREVENT GOVERNMENTS FROM STAYING IN CLOSE CONTACT WITH THE LEADING BANKS OF THEIR OWN COUNTRIES WHICH ARE REPRESENTED IN THE ICC FOR A DIRECT EXCHANGE OF INFORMATION ON STEPS TAKEN BY THE GOVERNMENTS ON THE ONE HAND AND BY THE COMMERCIAL BANKS ON THE OTHER.

LOOKING FORWARD TO HEARING FROM YOU IN THIS MATTER IN THE VERY NEAR FUTURE, I REMAIN

YOURS SINCERELY,
R. PROBST
STATE SECRETARY

ANNEX

INFORMATION DIAGRAM [redacted]

1. DIRECT CREDITS FROM GOVERNMENTS OR GOVERNMENTAL AGENCIES TO YUGOSLAV OBLIGORS WHICH ARE DUE AND PAYABLE IN 1983 (AMOUNT IN NATIONAL CURRENCY (+++)).

2. CREDITS WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS AND WHICH APE GUARANTEED OR INSURED

BY GOVERNMENTS OR GOVERNMENTAL AGENCIES (AMOUNT IN NATIONAL CURRENCY (+++)).

3 PARTS OF ITEMS 1 AND 2 WHICH ARE ROLLED OVER OR REFINANCED BY GOVERNMENTS OR GOVERNMENTAL AGENCIES, INCLUDING ROLL OVER OR RENEWAL OF GUARANTEES OR INSURANCE (AMOUNT IN NATIONAL CURRENCY (+++), DURATION, GRACE PERIOD).

I) PLEDGED IN THE BERNE PACKAGE

II) ADDITIONAL TO THE BERNE PACKAGE, IF ANY.

4. NEW CREDITS FROM GOVERNMENTS OR GOVERNMENT AGENCIES TO YUGOSLAVE OBLIGORS (AMOUNT IN NATIONAL CURRENCY (+++), DURATION, GRACE PERIOD).

I) PLEDGED IN THE BERNE PACKAGE
- (A) UNITED FINANCIAL CREDITS
- (B) TIED FINANCIAL CREDITS
- (C) EXPORT CREDITS
  - (I) FOR CONSUMER AND REPRODUCTION GOODS
  - (II) FOR CAPITAL GOODS

II) ADDITIONAL TO THE BERNE PACKAGE, IF ANY.
- (A) ...
- (B) ...
- (C) ...
  - (I) ...
  - (II) ...

(+++) IF NOT INDICATED IN NATIONAL CURRENCY, PLEASE SPECIFY EXCHANGE RATE APPLIED.

Mr. Mentré
c/Yugoslav
VR 71

Office Memorandum

TO : Mr. Paul Mentré (o/r) ✓
Ms. Duncan Ripley (o/r)

DATE: April 18, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

One of the sillier problems about Yugoslavia is the argument about the date of the Board meeting (see DR's memorandum to LAW of April 14). I do not think it reasonable to expect that the June mission can finish its work in Belgrade before June 17. If that were so, it would, I think, be dangerous to set a target date earlier than July 8 for issuing the Board paper (even that will take some doing). But, if Mr. Polak is adamant that he must be at the Board (and that is to be checked with him), there is sufficient time for the Board to meet on July 22 or 25 if the four-week rule can be waived. I am quite sure Mr. Polak will be willing to consult his colleagues and persuade them that two weeks is long enough; if that is so, I think he will be able to persuade the Managing Director to waive the rule. But we must be sure to get Mr. Polak to take the lead.

I have written this note in response to LAW's view that the de Vries-Ripley conversation left us in a procedural impasse.

cc: Mr. Whittome (o/r)

Mr. Paul Mentré (o/r)
Ms. Duncan Ripley (o/r)

April 18, 1983

Brian Rose

Yugoslavia

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I have written this note in response to LAW's view that the de Vries-Ripley conversation left us in a procedural impasse.

cc: Mr. Whittome (o/r)

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cc. HBJ
CED

1983 APR 15 PM 2: 27
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COMMUNICATIONS

FUND COMMUNICATIONS
(C200)

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ORIG: EURO
CC: MD
DMD
MR. N. CARTER

TO: 62153470

RCA APR 15 1405
WORLDBANK UD

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.AMC
TO OKB/HASCHEK, EFIC/BURTON, OND/LAURENT, EDC/KING, DEF/ANDERSEN, VTL/TIMONEN, COFACE/GRANGETTE, HERMES/KETELBOETER, ECGC/SATHE, SACE/RUFFINI, EIDMITI/NISHIMURA, NCM/HOOBROECHX, GIEK/KRINGSTAD, CESCE/HIDALGO, EKN/WALLEN, VSM/BOHREN, ECGD/FOSTER
BERNE UNION MEMBERS
SWISS MINISTRY OF FOREIGN AFFAIRS
ATTN: SECRETARY OF STATE PROBST
BERN' SWITZERLAND
TELEX 32 176

USED IMF
FOR DIRECTOR, EUROPEAN DEPARTMENT
WASHINGTON, D.C.

PEFCO
ATTN: JOHN DEUCHLER
NEW YORK, NEW YORK

FCIA
ATTN: JOHN HANSON, EXEC. V.P.
NEW YORK, NEW YORK

INTERNAT COORD. COMITTEEE FOR YUGOSLAVIA
ATTN: DOUGLAS EBERT, EXEC VP
MANUFACTURERS HANOVER TRUST COMPANY
NEW YORK, NEW YORK

EMBASSY OF YUGOSLAVIA
ATTN: MINISTER MILUTIN GALOVIC
WASHINGTON' D.C.

AMERICAN EMBASSY
BELGRADE, YUGOSLAVIA

1. FOR YOUR INFORMATION, WE HAVE INFORMED THE YUGOSLAV AUTHORITIES OF THE FOLLOWING REGARDING EXIMBANK'S POSITION ON THE 1983 REFINANCING EFFORT.

2. IN RESPONSE TO REQUEST OF YUGOSLAV BANKS FOR SECOND MORATORIUM ON 1983 MATURITIES TO JUNE 27, 1983, PAYABLE TO EXIMBANK OR GUARANTEED OR INSURED BY EXIMBANK, EXIMBANK CONCURS PROVIDED THAT OFFICIAL EXPORT CREDIT SUPPORT AGENCIES OF OTHER GOVERNMENTS DO LIKEWISE AND YUGOSLAV BORROWERS STAY CURRENT ON INTEREST PAYMENTS.

3. WE REFER TO THE AGREEMENT BETWEEN THE GOVERNMENT OF YUGOSLAVIA AND THE WESTERN COMMERCIAL BANKS. EXIMBANK HAS

RECEIVED A REQUEST FROM U.S. BANKS FOR PARALLEL ACTION. SUBJECT TO CONDITIONS SET FORTH IN PARAGRAPH 3 BELOW, EXIMBANK IS PREPARED (A) TO TREAT MATURITIES DUE EXIMBANK DIRECTLY IN 1983 OF MEDIUM- AND LONG-TERM DEBT ON A COMPARABLE BASIS TO THAT OF COMMERCIAL BANK MEDIUM-TERM DEBT (APPROXIMATELY DOLLARS 74.5 MILLION PLUS ARREARAGES FROM 1982), (B) TO EXTEND FINANCIAL AND EXPORTER CREDIT GUARANTEES AND FCIA INSURANCE OF COMMERCIAL BANK MEDIUM- AND LONG-TERM MATURITIES DUE IN 1983 TO CORRESPOND TO PROVISIONS AGREED WITH U.S. COMMERCIAL BANKS (APPROXIMATELY DOLLARS 57.7 MILLION PLUS ARREARAGES FROM 1982); AND (C) TO REMAIN OPEN FOR NEW COMMITMENTS IN YUGOSLAVIA UNDER ALL OF ITS PROGRAMS.

4. CONDITIONS CONSIST OF FOLLOWING:

A. THAT ALL SHORT-TERM U.S. COMMERCIAL BANK DEBT DUE IN 1983 ARISING FROM U.S. EXPORTS OF GOODS AND SERVICES AND SUPPORTED BY EXIMBANK OR FCIA BE PAID WHEN DUE OR NOT LATER THAN 90 DAYS AFTER JUNE 27, 1983, FOR MATURITIES DUE IN THE FIRST HALF OF 1983.

B. THAT YUGOSLAVIA REMAIN CURRENT ON ALL INTEREST PAYMENTS;

C. THAT OTHER GOVERNMENTS AGREE TO TREAT THEIR EXPOSURE IN YUGOSLAVIA IN SIMILAR FASHION AND REMAIN OPEN IN YUGOSLAVIA;

D. THAT YUGOSLAVIA OBSERVE THE PROVISIONS OF ITS 1983 AGREEMENT WITH THE IMF;

E. THAT EXIMBANK RECEIVE SECURITY FOR BOTH EXISTING AND FUTURE TRANSACTIONS COMPARABLE TO WHAT COMMERCIAL BANKS HAVE OBTAINED -- I.E., GUARANTEES FROM NATIONAL BANK OF YUGOSLAVIA, OTHER YUGOSLAV BANKS AND SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA.

REGARDS,

JOHN H. HUBER/S.G. GLAZER EXIMBANK WASHINGTONDC

SENT 1309 EST 04/15/83

WORLDBANK UD

.....
REPLY TO THIS TELEX VIA RCA

MMMM

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

DR. F. LEUTWILER, PRESIDENT
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE, SWITZERLAND

MARK XX FOR CODE

(______) CODE

DO NOT TYPE HERE

DISTRIBUTION

DMD
MR. FINCH
MR. ROSE
MRS. JUNZ
MR. CARTER

START TEXT HERE

DEAR MR. LEUTWILER:

THE MEETING HELD IN ZURICH ON APRIL 16, WHICH WAS CALLED BY THE YUGOSLAV AUTHORITIES AND WAS ATTENDED BY REPRESENTATIVES OF THE BANKS, OF THE GOVERNMENTS PARTICIPATING IN THE FINANCIAL SUPPORT PACKAGE AND OF THE FUND, HAS MADE ENCOURAGING PROGRESS IN RESOLVING THE DIFFICULTIES OUTSTANDING, WHICH WILL FACILITATE MORE RAPID IMPLEMENTATION OF THE PACKAGE. I VERY MUCH HOPE THAT THE BIS WILL NOW BE ABLE TO PROCEED WITH THE AGREED DISBURSEMENTS FOR YUGOSLAVIA. THE SHORT-TERM BIS FINANCIAL SUPPORT IS AN IMPORTANT COMPONENT OF THE OVERALL FINANCING PACKAGE AND ITS DISBURSEMENT WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE SOLUTION OF YUGOSLAVIA'S CURRENT DIFFICULTIES.

WITH MY BEST WISHES, I AM,

SINCERELY YOURS,

J. DE LAROSIERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS ↑ TEXT MUST END HERE ↑

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): BRIAN ROSE EXT.: 73377 DEPT.: EUR DATE: 4/18/83

AUTHORIZED BY NAME (TYPE): J. DE LAROSIERE AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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~~DR. G. SCHLEIMINGER~~
~~GENERAL MANAGER~~
~~BANK FOR INTERNATIONAL SETTLEMENTS~~
~~BASLE, SWITZERLAND~~

MARK XX FOR CODE
( ) CODE

DISTRIBUTION
~~DMD~~
MR. FINCH
MR. ROSE
MRS. JUNZ
MR. CARTER

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I HAVE TODAY SENT THE FOLLOWING COMMUNICATION TO MR. LEUTWILER: QUOTE: THE MEETING HELD IN ZURICH ON APRIL 16, WHICH WAS CALLED BY THE YUGOSLAVIAUTHORITIES AND WAS ATTENDED BY REPRESENTATIVES OF THE BANKS, OF THE GOVERNMENTS PARTICIPATING IN THE FINANCIAL SUPPORT PACKAGE AND OF THE FUND, HAS MADE ENCOURAGING PROGRESS IN RESOLVING THE DIFFICULTIES OUTSTANDING, WHICH WILL FACILITATE MORE RAPID IMPLEMENTATION OF THE PACKAGE. I VERY MUCH HOPE THAT THE BIS WILL NOW BE ABLE TO PROCEED WITH THE AGREED DISBURSEMENTS FOR YUGOSLAVIA. THE SHORT*TERM BIS FINANCIAL SUPPORT IS AN IMPORTANT COMPONENT OF THE OVERALL FINANCING PACKAGE AND ITS DISBURSEMENT WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE SOLUTION OF YUGOSLAVIA'S CURRENT DIFFICULTIES. UNQUOTE

SINCERELY,

J. DE LAROSIERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

A
B
C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): BRIAN ROSE — EXT.: 73377 DEPT.: EUR DATE: 4/18/83

E AUTHORIZED BY NAME (TYPE): J. DE LAROSIERE — AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F Log D2136

SEC. 48 REV 1 11-18-82

G SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

Office Memorandum

APR 18 1983

TO : The Managing Director

DATE: April 18, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

As foreshadowed in Mr. Whittome's memorandum to you of April 15, Mrs. Junz and Mr. Mentré telephoned me on Saturday. They report that the meeting in Zurich went well. The banks will now receive, through communication between the ICC and the Swiss chairman of the inter-governmental group, a better explanation of the position and intentions of the contributing governments.

I am attaching for your signature a draft telex from you to Mr. Leutwiler, which has been seen by Mrs. Junz and Mr. Mentre, and also a copy to go to Mr. Schleiminger. As Mr. Whittome mentioned, it is very desirable that this telex be sent off today.

cc: The Deputy Managing Director
Mr. Carter
Mr. Mentré (on return)
Mrs. Junz (on return)
CED

Office Memorandum

TO : The Managing Director DATE: April 18, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

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cc: The Deputy Managing Director
Mr. Carter
Mr. Mentré (on return)
Mrs. Junz (on return)
CED

START ADDRESS IN THE BOX

DR. F. LEUTWILER, PRESIDENT
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE, SWITZERLAND

MARK XX FOR CODE
( ) CODE

DISTRIBUTION

DMD
MR. FINCH
MR. ROSE
MRS. JUNZ
MR. CARTER

DO NOT TYPE HERE

START TEXT HERE

DEAR MR. LEUTWILER:

THE MEETING HELD IN ZURICH ON APRIL 16, WHICH WAS CALLED BY THE YUGOSLAV AUTHORITIES AND WAS ATTENDED BY REPRESENTATIVES OF THE BANKS, OF THE GOVERNMENTS PARTICIPATING IN THE FINANCIAL SUPPORT PACKAGE AND OF THE FUND, HAS MADE ENCOURAGING PROGRESS IN RESOLVING THE DIFFICULTIES OUTSTANDING, WHICH WILL FACILITATE MORE RAPID IMPLEMENTATION OF THE PACKAGE. I VERY MUCH HOPE THAT THE BIS WILL NOW BE ABLE TO PROCEED WITH THE AGREED DISBURSEMENTS FOR YUGOSLAVIA. THE SHORT-TERM BIS FINANCIAL SUPPORT IS AN IMPORTANT COMPONENT OF THE OVERALL FINANCING PACKAGE AND ITS DISBURSEMENT WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE SOLUTION OF YUGOSLAVIA'S CURRENT DIFFICULTIES.

WITH MY BEST WISHES, I AM,

SINCERELY YOURS,

J. DE LAROSIERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): BRIAN ROSE EXT.: 73377 DEPT.: EUR DATE: 4/18/83

AUTHORIZED BY NAME (TYPE): J. DE LAROSIERE

AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log

SEC 48 REV 1
11-18-82

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

1. PLEASE KEEP SIGNATURE IN SPACE ALLOWED.
2. Use OCR-B210 sphere and set typewriter for DOUBLE SPACING - No other markings acceptable.
3. Use 10 pitch type (Pica).

START ADDRESS IN THE BOX

DR. G. SCHLEIMINGER
GENERAL MANAGER
BANK FOR INTERNATIONAL SETTLEMENTS
BASLE, SWITZERLAND

MARK XX FOR CODE
(______) CODE

DISTRIBUTION

DMD
MR. FINCH
MR. ROSE
MRS. JUNZ
MR. CARTER

START TEXT HERE

DO NOT TYPE HERE

I HAVE TODAY SENT THE FOLLOWING COMMUNICATION TO MR. LEUTWILER: QUOTE: THE MEETING HELD IN ZURICH ON APRIL 16, WHICH WAS CALLED BY THE YUGOSLAV AUTHORITIES AND WAS ATTENDED BY REPRESENTATIVES OF THE BANKS, OF THE GOVERNMENTS PARTICIPATING IN THE FINANCIAL SUPPORT PACKAGE AND OF THE FUND, HAS MADE ENCOURAGING PROGRESS IN RESOLVING THE DIFFICULTIES OUTSTANDING, WHICH WILL FACILITATE MORE RAPID IMPLEMENTATION OF THE PACKAGE. I VERY MUCH HOPE THAT THE BIS WILL NOW BE ABLE TO PROCEED WITH THE AGREED DISBURSEMENTS FOR YUGOSLAVIA. THE SHORT-TERM BIS FINANCIAL SUPPORT IS AN IMPORTANT COMPONENT OF THE OVERALL FINANCING PACKAGE AND ITS DISBURSEMENT WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE SOLUTION OF YUGOSLAVIA'S CURRENT DIFFICULTIES. UNQUOTE

SINCERELY,

J. DE LAROSIERE

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SEC. 48 REV 1
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3. Use 10 pitch type (Pica)

Mr. Whittome

April 16, 1983

MEMORANDUM FOR FILES

Subject--Yugoslavia--Note on Joint Meeting on International Financial Support to Yugoslavia

Participants in the international financial support package for Yugoslavia--representatives of the 15 countries who pledged assistance at the January 1983 Berne meetings, representatives of the International Coordinating Committee (ICC) of the commercial banks providing financial support to Yugoslavia, and representatives of the IMF--met with Yugoslav representatives in Zurich on April 16, 1983 to discuss progress in implementing the elements of the financial package (participants attending the meeting are listed in the attachment).

After some introductory remarks Mr. Smole, head of the Yugoslav delegation, provided a brief review of the Yugoslav economic situation. Exports to the convertible currency area had risen by 27 per cent in the first three months of 1983 compared with the same period of 1982; insofar as exports in the first months of 1982 were abnormally low and the 1983 figure included some exports of ships, the 27 per cent increase was probably not as impressive as it initially appeared. 1/ Imports from the convertible currency had also been substantially cut back and together with the high export growth led to a 55 per cent fall in the trade deficit in the first quarter of 1983 compared with the corresponding period of 1982. The overall trade deficit amounted to $546 million in the first quarter and was 36 per cent lower than in 1982. With the convertible currency area, the exports to imports ratio was 74 per cent in the first three months of 1983 compared with 50 per cent in the same period of 1982.

Mr. Smole added that the authorities were pursuing very restrictive credit and fiscal policies together with a more active exchange rate policy that was contributing to the improved export performance. The recent depreciation of the dinar and the upward administered price adjustments were, of course, generating greater inflationary pressures. The high rise in prices was contributing to a decline in the real standard of living of the population. Real personal incomes had declined by around 8 per cent in the first part of 1983, after registering considerable declines in 1981 and 1982. Foreign exchange reserves were very low and were causing diminished supplies through import restraints. The lack of competition in the domestic market in turn facilitated undue price increases and could possibly hinder future export performance. Attempts were being made to effect special arrangements on export sales with companies in the EC rather than leaving exports solely to market forces.

Turning to the international financial assistance program to Yugoslavia, Mr. Smole said that great efforts were being invested in bringing this package of support to fruitition. However, more coordination

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1/ A rate of increase of some 40 per cent in exports to the developing countries was important in contributing to the large recorded rate of increase in exports to the convertible currency area. Also, because of lags in the repatriation of export receipts the rise in export shipments was well in excess the increase in exports on a cash basis estimated at 18 per cent.

between the various participants in the package was needed. Mr. Smole indicated that the Yugoslav authorities were satisfied with the IMF and World Bank in implementing their parts of the package. The commercial banks appeared to be making the maximum efforts in bringing about the timely completion of their loans to Yugoslavia; the Yugoslav Government had provided the auditing firm of Peat Marwick and Mitchell with information that would assist in reconciling data on Yugoslavia's indebtedness to foreign banks at end-November 1982 and on debt maturities to such banks falling due in 1983. 1/

Mr. Smole indicated that the intergovernmental part of the package was presenting greater difficulties. One of the problems with the finalizing of the bilateral agreements with Yugoslavia was that certain governments wished to give some of their support in the form of credits for the import of investment goods. 2/ Yugoslavia had recently passed a law forbidding the use of credits for financing the purchase of capital goods.

Mr. Smole said that it was difficult to understand why the BIS had not yet disbursed the promised $500 million credit to Yugoslavia. Waivers had been given by commercial banks with respect to the negative gold pledges and gold had been deposited as required by the BIS. Problems concerning the proposed BIS disbursement should be identified. 3/

Mrs. Junz said that the expected net purchases under the Fund stand-by arrangement with Yugoslavia in 1983 would raise its exposure by 29 per cent (i.e., excluding transactions related to the oil and compensatory financing facilities). The next purchase under the stand-by arrangement (that is on May 15, 1983) would be contingent on satisfactory progress being recorded in putting the banks part of the financing package in place. Mrs. Junz noted that the IMF was likely to continue stand-by arrangements with Yugoslavia following the expiry of the present one at the end of 1983.

Mr. Probst, who essentially acted as a co-chairman of the meeting and a leading spokesman for the governments present, said that it would be very undesirable to reopen the Berne package. This would lead to a loss of valuable time with associated negative consequences for Yugoslavia. If all governments were pressed to extend or renew official guarantees of bank credits falling due in 1983, this could result in reopening the package since these guarantees in many cases would constitute additions to the package and would discriminate against certain countries (e.g., Austria, who pledged substantial financial credits in Berne as against countries who had

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1/ Questionnaires were in the process of being sent to creditors to Yugoslavia; their replies were expected by early May, with the final assembly of data being ready by end-May. Later information obtained in Belgrade from the SDK indicated that it could be well into June before the reconcilation of external debt data was finally completed.

2/ The Swiss, for example, were offering the authorities credits for capital goods imports for the food processing industry which they thought would generate a quick return in foreign exchange earnings and be associated with credits from Swiss commercial banks.

3/ The Yugoslav representatives, both in and outside the meeting room, indicated that the BIS disbursement would be used for essential imports and cleaning up interest arrears. Mr. Colanovic of Yugobanka said that the strongest Yugoslav banks had established a fund for the cleaning up of interest arrears and were currently in the process of doing so.

pledged refinancing of export credits). Also, to ask governments to stretch out maturities on direct export credits would bring Yugoslavia closer to a Paris Club type of rescheduling operation. Surely, the banks wished to avoid such a situation.

Mr. Dobrich, acting chairman of the ICC from Manufacturers Hanover Trust, said that following the Zurich meeting on January 17, 1983, the ICC for the commercial banks had been established with representatives from 13 banks of 9 countries on the committee. The ICC had set up an economic subcommittee headed by Mr. Brainard, which in February 1983 submitted a report on Yugoslavia's external financing requirements. Thereafter, the ICC had engaged PMM to reconcile data on Yugoslav bank debt outstanding at end-November 1982 and external bank debt maturities for 1983. The ICC had agreed with the Yugoslav authorities on March 25, 1983 that medium- and long-term bank debt maturing in 1983 would be rolled over for six years with a three-year grace period. In addition, $600 million of new commercial bank loans would be disbursed once the package of facilities to be provided to Yugoslavia had been finalized; it was unclear whether the full amount of this loan would be disbursed immediately after the signing of the relevant documents. 1/ The banks would also roll over short-term credits for three years until January 1986. 2/ Trade credits should be repaid promptly in order to facilitate the flow on imports.

Mr. Dobrich said that the banks were satisfied with the IMF program with Yugoslavia, having as a precondition of their financing package an agreement that Yugoslavia would enter into stand-by arrangements with the Fund in 1984 and 1985. He added that the banks had waived their negative gold pledges in order that Yugoslavia could secure a credit from the BIS. The banks were pleased that the negotiation of World Bank structural adjustment loan with Yugoslavia was proceeding well and they hoped it would be disbursed before the end of the year. With respect to their own financing package, it was foreseen that it would be completed before the end of June 1983 provided that certain conditions were met, including pari passu burden sharing with government financial support to Yugoslavia under the Berne package. The banks did not wish to reopen the package of financial support to Yugoslavia, but considered that the Government's cash flow contribution should be pari passu with that of the banks and that they were seeking assurances on this.

1/ Discussions with bankers and Mr. Colanovic of Yugobanka left little doubt that the ICC was seeking to have new money disbursed in line with the timing of the cash flow contributions from disbursements from the government package.

2/ Balance of payments figures showing net short-term capital outflow of $200 million in the first quarter of 1983 suggest some slippage in the rollover of short-term bank credits, more than can be explained by repayments of debt before January 17, 1983.

The German Government representative said they did not wish to reopen the Berne package, but said that it would be technically difficult for each individual government to arrange its financial support to Yugoslavia in such a way as to provide cash flow contributions pari passu with that of the commercial banks since this would depend on the composition of the many types of assistance that could be provided, including variations in export contracts. Mr. Dobrich replied that the provision of bank refinancing and extension of financial credits should be on similar terms to those proposed by the banks. The governments should increase their new credits to Yugoslavia by a similar rate as that of the banks and also rollover guarantees on bank debts maturing in 1983. He stressed that when the details of the Berne package were completed it would be evaluated on an aggregate basis, rather than requiring individual governments to provide pari passu contributions.

Mr. Cornell, representing the U.S. Government, said that Secretary Shultz's communication to the governments was not intended to reopen the Berne package, but was aimed at inducing governments to consider the types of rollovers and guarantees required by the banks. It would be up to individual banks to discuss with their Governments arrangements necessary for banks to refinance and rollover existing maturities It would not be desirable for governments as a group to negotiate terms vis-a-vis a group of banks. Mr. Cornell indicated that his government was prepared to extend maturities on loans directly due to its agencies. 1/ Mr. Cornell said that his Government representatives had estimated that the Berne Governments would be increasing their net exposure to Yugoslavia by $300 million as a result of the assistance flowing from the Berne package. Mr. Dobrich noted that there could be over 500 banks involved in the stretching out of maturities and it would be difficult for each bank to negotiate separately with their respective Governments. Mr. Probst supported the proposal that the negotiations between banks and governments on terms of loans and the refinancing of credits should be conducted on a country-by-country basis. However, at this stage is was suggested that the Government representatives caucus among themselves to form a view about how they would handle their relations with the commercial banks.

After the caucus between the Government representatives, Mr. Probst said that it had been agreed that the Governments should provide more information to the ICC and the IMF on the status and details of the individual bilateral agreements with Yugoslavia. The Government representatives had decided to give more transparency to section 1 of Chapter IV of the January 19, 1983 Berne Memorandum of Understanding. Accordingly, the Government representatives had agreed to a written text supporting the Berne memorandum in an informal way. This text stated that the Chairman of the Berne group of governments is authorized to communicate the details of bilateral agreements with Yugoslavia to the Chairman of the ICC and the IMF. Secondly, given the urgency of implementing quickly the package of international financial support,

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1/ This indication was in conflict with the U.S. position in Washington, namely that extensions of official guarantees on bank credits falling due in 1983 would only be provided if other Berne governments did the same thing.

Government representatives would be asked to communicate details of the bilateral arrangements to the Chairman of the Berne group and the ICC by April 30, 1983. Thirdly, for governments not having finalized agreements they should provide data about the details of their proposals with the Yugoslav Government by end-April. The Chairman of the Berne Group would communicate to Governments next week a message on the details of the bilateral agreements that would be required.

Discussions then turned to the content of the press release that was distributed after the meeting (final press release is attached).

L.G. Manison

cc: Mr. Whittome
Mr. Mentre
Mrs. Junz
Ms. Ripley
Mr. Lewis
Mr. Petersen

Attachments

List of Participants

President:	Mr. Janko SMOLE Member of the Federal Executive Council
Assistants to the President:	Ms Helen JUNZ, Senior Advisor European Department, IMF
	Mr. Raymond PROBST, Secrétaire d'Etat Directeur de la Direction politique Département fédéral des affaires étrangères
	Attachés à l'assistance suisse du Président:
	Mr. Jacques FAILLETTAZ, Ministre Chef du Service économique et financier Département fédéral des affaires étrangères
	Mr. Georg ZUBLER, Collaborateur diplomatique Service économique et financier Département fédéral des affaires étrangères
Austria:	Ms Friederike WEISSBACHER, Oberrat Deputy Director Ministry of Finance
	Mr. Werner SAUTTER, Ambassador Austrian Embassy, Berne
	Mr. Peter PRAMBERGER, Minister-Counsellor Austrian Embassy, Berne
Belgium:	Mr. P. KNAEPEN, Conseiller Office National du Ducroire
Canada:	Mr. Donald McLENNAN, Counsellor Canadian Embassy, Berne
Denmark:	Mr. Hans Erik THRANE, Ambassador Embassy of Denmark
Finland:	Mr. Erik HAGFORS, Assistant Director Trade Policy Department Ministry of Foreign Affairs

France:	Mr. Patrice DURAND, Administrateur civil Directeur du Trésor Ministère de l'Economie, des Finances et du Budget
Germany:	Mr. Peter GEHRING, Ministerialrat Referatsleiter im Bundeswirtschaftsministerium
	Mr. Malte EHRIG, Regierungsdirektor Referatsleiter Ausfuhrfinanzierung und -kreditversicherung Bundesministerium der Finanzen
	Mr. Wolfgang RUNGE, Vortragender Legationsrat Auswärtiges Amt
Italy:	Mr. Luigi MORRONE, Conseiller Chef de l'office II (Relations économiques avec pays voisins) Ministère des affaires étrangères
	Mr. R. RUBERTI, Directeur SACE
	Mr. Pietro MASCI, Directeur Direction Générale du Trésor Ministère du Trésor
	Mr. Mario FORESTI, Premier Conseiller Ambassade d'Italie, Berne
Japan:	Mr. Toshio MOCHIZUKI, Counsellor Embassy of Japan, Berne
	Mr. Yoshinobu TAKEUCHI, Counsellor Embassy of Japan, Berne
	Mr. Katsuhiko TOKITA Japan External Trade Organization London Office
Netherlands:	Mr. Franciscus A. ENGERING, Directeur Relations financières extérieures Ministère des finances
	Mr. John LINTJER Collaborateur de la direction des garanties du risque à l'exportation et à l'investissement Ministère des finances

Norway:	Mr. Lars TANGERAAS, Chef de Division Direction des affaires économiques Ministère royal des affaires étrangères
Sweden:	Mr. Eric VIRGIN, Ambassador Special Negotiator Ministry of Foreign Affairs
	Mr. Erik O. TRÄFF, Manager Legal Section The Swedish Export Credits Guarantee Board
Switzerland:	Mr. Daniel KAESER, Vice-Directeur Administration des finances Département fédéral des finances
	Mr. Cornelio SOMMARUGA, Ambassadeur Délégué du Conseil fédéral aux accords commerciaux Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
	Mr. Hans Ulrich GREINER, Chef de section Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
	Mr. Rudolf D. KUMMER, Adjoint Chef du Service Yougoslavie Office fédéral des affaires économiques extérieures Département fédéral de l'économie publique
United Kingdom:	Mr. M.V. HAWTIN, Assistant Secretary Treasury
	Ms S. Eileen HARDING, Assistant Secretary Export Credits Guarantee Department
	Mr. Frank L. HALL, Adviser Bank of England
	Mr. Kevin R. TEBBIT, Eastern European and Soviet Department Foreign and Commonwealth Office
United States of America:	Mr. Robert CORNELL, Deputy Assistant Secretary Treasury
	Mr. William MILAM, Director International Monetary Affairs State Department

Yugoslavia:	Mr. Janko SMOLE Member of the Federal Executive Council
	Mr. Sulejman REDJEPAGIC, Ambassador Embassy of Yugoslavia, Berne
	Mr. Gavra POPOVIC, Assistant Secretary Federal Secretariat of Finance
	Mr. Tarik AJANOVIC, Assistant Secretary Federal Secretariat of Foreign Affairs
	Mr. Vinko MIR, Vice Minister Federal Secretariat of Foreign Trade
	Mr. Jozef KOROSEC, Vice Governor National Bank of Yugoslavia
	Mr. Miodrag VUJOVIC, Senior Adviser The Federal Executive Council
	Mr. Tihomir OBUCINA, Counsellor Embassy of Yugoslavia, Berne
IMF:	Ms Helen JUNZ, Senior Advisor European Department Front Office
	Mr. Paul MENTRE, Consultant European Department Front Office
	Mr. Leslie G. MANISON, Senior Economist Desk Economist on Yugoslavia
ICC:	Mr. Fulvio DOBRICH, Vice President Manufacturers Hanover Trust
	Ms Margaret MUDD, Assistant Vice President
	Mr. Vittorio PORCHI Banca Commerciale Italiana
	Mr. John W.D. ADAMSON Bankers Trust Co.
	Mr. E. GOTTSCHALK Bankers Trust Co.
	Mr. Gabriel EICHLER Bank of America

ICC:

Mr. James J. LEE
The Bank of New York

Mr. Azusa OSHIMA
Bank of Tokyo

Mr. Masahiro WASA
Bank of Tokyo

Mr. Brian GRIMMOND
Barclays Bank International Ltd.

Mr. John MINNEMAN
Chase Manhattan Bank

Mr. Peter R. GREER
Chase Manhattan Bank

Mr. Joseph J. TUNNEY
Chemical Bank

Mr. Paul McCARTHY
Chemical Bank

Mr. Robin M. WINCHESTER
Citibank N.A.

Mr. Emanuel MARAVIC
Creditanstalt-Bankverein Vienna

Mr. Efraim VARESIO
Istituto Bancario San Paolo di Torino

Mr. Walter I. BARANETSKY
Morgan Guaranty Trust Co.

Mr. Philip WELLS
Security Pacific

Mr. François BEXON
Société Générale

Mr. Guido CONDRAU
Swiss Bank Corporation

Mr. Eckhart MAUERSBERGER
Westdeutsche Landesbank Girozentrale

FINAL

April 16, 1983

Press release

Participants in the action on behalf of Yugoslavia - representatives of the 15 countries, who joined in Berne to provide financial support to Yugoslavia last January, the commercial banks represented through the International Coordinating Committee of the commercial Banks who are in the process of agreeing a loan to Yugoslavia that will cover the maturities falling due in 1983 and a certain amount of new money, and representatives of the IMF - met with representatives of the Government of Yugoslavia in order to review the progress being made in executing the elements of the financial package.

The meeting reaffirmed the agreement on the substance of the package as earlier assessed and made progress in addressing a number of procedural questions.

The meeting agreed that the package was progressing in a satisfactory manner and as scheduled. The representatives of the countries confirmed that decisions on financial support to Yugoslavia either had been finalized or were in the process of being finalized. The commercial banks confirmed that they were in the process of preparing appropriate documentation with the signing to take place prior to the end of June 1983.

The participants of the meeting paid their tribute to the Government of Switzerland for the efforts in organizing the meeting as coordinators for governments present and for the hospitality rendered.

cc: CED

IMF OFFICIAL CABLE

RECEIVED I.M.F.

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1983 APR 15 AM 7:20

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Cable read to Mrs. Jung on 4/15

CC: MD
DMD
MR. N. CARTER

APRIL 15, 1983

MR JACQUES DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND
WASHINGTON

DEAR MR DE LAROSIERE,

I THANK YOU FOR YOUR TELEX OF MARCH 16, 1983, IN WHICH YOU DESCRIBE THE PROGRESS MADE SO FAR IN ARRANGING AN INTERNATIONAL FINANCIAL PACKAGE IN SUPPORT OF THE ADJUSTMENT PROGRAM OF YUGOSLAVIA. I FULLY SHARE YOUR VIEW THAT IT IS VITAL THAT THE ECONOMIC ASSISTANCE PACKAGE FOR YUGOSLAVIA BE PUT IN PLACE AS SOON AS POSSIBLE.

IN YOUR TELEX YOU DISCUSS AS WELL THE PARTICULAR ISSUE OF A REQUEST MADE BY THE COMMERCIAL BANKS THAT GOVERNMENTS ROLL OVER OR RENEW THEIR GUARANTEES OF MEDIUM TERM YUGOSLAV DEBT TO BANKS FALLING DUE IN 1983. ALTHOUGH NO SUCH REQUEST HAS BEEN MADE SO FAR TO MY GOVERNMENT, LET ME MAKE THE FOLLOWING OBSERVATION IN RELATION TO THIS ISSUE:

AS YOU WILL RECALL, THE BERNE MEMORANDUM OF UNDERSTANDING IS BASED ON THE STATED INTENTION OF THE YUGOSLAV GOVERNMENT TO ENSURE THAT DEBT SERVICE OBLIGATIONS TO COOPERATING STATES ON LOANS OR ON CREDITS GUARANTEED BY THEM OR THEIR APPROPRIATE INSTITUTIONS WILL BE PAID ON SCHEDULE.

IF BANKS NOW MAKE THEIR WILLINGNESS TO FINANCE DEBT DUE IN 1983 AND PROVIDE NEW LOANS CONTINGENT ON AGREEMENT BY THE PARTICIPANTS IN THE BERNE TO ROLLOVER GOVERNMENT GUARANTEES ON ANY 1983 DEBT SERVICE REFINANCED, THIS WOULD SEEM TO ME TO BE IN CONTRADICTION WITH THE INTENTIONS STATED IN THE MEMORANDUM OF UNDERSTANDING.

IF, IN SPITE OF THIS, A ROLLOVER OPERATION WERE TO BE CONSIDERED, A PREREQUISITE MUST BE THAT THERE IS AGREEMENT AMONG THE CREDITOR COUNTRIES. THE DETAILS AND CONDITIONS FOR SUCH A ROLLOVER OPERATION WOULD, OF COURSE, HAVE TO BE HARMONIZED BETWEEN THE CREDITOR COUNTRIES AND YUGOSLAVIA IN ACCORDANCE WITH ESTABLISHED PRACTICES FOR MULTILATERAL DEBT RESTRUCTURING.

LET ME ADD THAT THE SWEDISH COMMITMENT MADE DURING THE DIS-

IMF OFFICIAL CABLE

CUSSIONS IN BERNE WAS NOT SPECIFIED AS TO ITS EXACT NATURE. ROOM COULD POSSIBLY BE FOUND WITHIN THIS COMMITMENT FOR A SWEDISH PARTICIPATION IN A ROLLOVER OPERATION, SHOULD SUCH AN OPERATION BE AGREED UPON.

SINCERELY,

KJELL-OLOF FELDT
MINISTER OF FINANCE
STOCKHOLM, SWEDEN

248331 IMF UR

11741 FINANS S

Time: 07:11 04/15/83 ???
Connect Time : 368 seconds

cc: Mr. J[illegible]
cc: DR

Office Memorandum

TO : Mr. Whittome

DATE: April 14, 1983

FROM : T. de Vries

SUBJECT : Yugoslavia - Timing of Board Discussion

You will have been informed that in a conversation with Ms. Ripley I emphasized that, from our point of view, August 5 is a poor day for the Mid-Year Review of Yugoslavia's program. Mr. Polak leaves on home leave on July 26, and I have reason to believe that he would not want to miss two Board discussions on Yugoslavia in a row.

As I know your constraints also, I would ask that you do not take a decision until he returns on Monday, April 18.

cc. Ms. Ripley

cc: Mr Mentré

You & Ms Ripley will have to consider this problem and act as you both think necessary.

[initials]
15/4

Office Memorandum

TO : Mr. Whittome

DATE: April 14, 1983

FROM : Duncan Ripley DR

SUBJECT : August Board Meeting for Yugoslavia

I spoke with Mr. de Vries about the possibility of holding the Board meeting on August 5, explaining the reasons for which we had selected this date. He said that: (1) Mr. Polak would be anxious to participate in this Board meeting, particularly in view of the fact that he had been absent from the Board meeting in March; (2) Mr. de Vries was not a possible substitute for Mr. Polak for the Yugoslav discussions; and (3) Mr. Polak was leaving Washington July 26, not returning until September 1. Thus this date was impossible for his office to accept and the meeting would have to take place in the week ending July 22. I noted that this would give us great difficulties and that I would communicate the response to you.

cc: DR

I just don't see that this is possible. Pl discuss with ~~HB~~ PM & bring up again on your return.

AW 14/4

cc: German cons.
Yugo Cty.

April 13, 1983

MEMORANDUM FOR FILES

Subject: Timing of Country Board Discussion

I spoke with Messrs. Laske and Schmitt who were both anxious that the German Board meeting take place, at least as early as July 27th. The Secretary's Department has now confirmed the 27th as a possible date for the Board meeting for the Article IV consultation, and will get back to us if there is any difficulty.

Secretary's is also holding August 5 as a date for the Board Discussion of the mid-year review with Yugoslavia. I have contacted Mr. Polak's office to confirm this date with him. Mr. Polak is out of the country, but Mr. de Vries is expected to get back to me on the date tomorrow.

Duncan Ripley DR

Mr. Brian Rose April 15, 1983

L.A. Whittome

Yugoslavia

Schleiminger phoned this morning to say that they had decided to hold up disbursement of the $300 million part of the BIS package until they could be assured by us that it was proper for them to prefinance Fund drawings due in the second half of 1983.

I said that speaking "off the record" there was a danger of a vicious circle. The only net new money made available to Yugoslavia over the past four months had been the initial drawing under the Fund's 1983 program. In consequence during the seasonally very unfavorable first half of the year the Yugoslav position had been under very great stress with an acute shortage of imports which had affected exports etc. We had no figures yet available and these would not become known until May. However, it was just possible that the unexpected stresses would have led to some breaking of performance clauses. Hopefully this would not be so but in any case the program would not be "fully" on course and this might affect performance in the second half of the year.

We then discussed what we could do and he said (and I agreed) that it was basically unlikely that the Zurich meeting would constitute any real breakthrough. However, we both agreed that it was essential that the meeting be presented as a success.

He said that they would wait for a formal communication from us signed by the Managing Director, Deputy Managing Director, or myself. They would most urgently wish to receive a telex on Monday, April 18. The telex would need at least to say that the meeting was "encouraging" and he would very much like us to include some such phrase as the meeting had brought the program nearer to success. This he said was the minimum for them; ideally he would like us to give a judgment as to the wisdom of the BIS making their money available. I demurred at this request.

Please note that both the Managing Director and the Deputy Managing Director will be away on Tuesday so that the telex will have to be sent out on MOnday.

We shall need today to contact Mrs. Junz and Mr. Mentré to ensure that we get a full report of the meeting and advise as to whether we can telex the message Schleiminger says that he must have.

The disbursement of the BIS money is essential for Yugoslavia and it would be a tragedy if a result of the Zurich meeting was a further postponement of disbursements by the BIS.

Can we please telex and perhaps as well phone Junz/Mentré today. Schleiminger made it reasonably clear that a message from the staff attending the Zurich meeting would not be sufficient for his purpose.

cc: Mrs. Schmitt
Ms. Ripley

cc: BR
HS

The Managing Director | April 15, 1983

L.A. Whittome

Yugoslavia

I spoke this morning with Mr. Schleiminger who informed me that the BIS had decided to delay disbursement of the $300 million portion of the BIS package until they could be assured by the Fund that this disbursement was appropriate and that progress was being made in putting together the joint financial package. The BIS will await a formal communication from you reporting on the outturn of the meeting being held tomorrow in Zurich; as you know this meeting has been called by the Yugoslav authorities to bring together the banks and participating governments in the joint financial package to expedite the finalization of the package. Fund representatives at this meeting include Mrs. Junz and Mr. Mentré. Clearly it is vital that this meeting be viewed as a success and it is urgent that the message be telexed from Washington to the BIS on Monday, April 18.

I shall be leaving for Japan on Sunday and have made the following arrangements so that the telex can be submitted to you in a timely manner. The staff participants in Zurich have been asked to telephone on Saturday following the meeting to report on the outturn. A telex to Mr. Leutwiler copied to Mr. Schleiminger will then be prepared, and will be submitted for your approval and signature on Monday morning by Mr. Rose. It is very desirable that it be sent off on Monday for the disbursement of the BIS money is vital for the viability of the Yugoslav program, particularly in view of the slower than hoped for progress in finalizing the joint bank-government initiative.

cc: The Deputy Managing Director
Mr. Carter
CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

LIST OF 2

ZURICH

SWITZERLAND

MARK XX FOR CODE

(______) CODE

cc: BR
HS
CED

DISTRIBUTION

START TEXT HERE

DO NOT TYPE HERE

PURSUANT TO MY EARLIER TELEX WE HAVE DRAFTED THE FOLLOWING COMMUNICATION TO BE SENT BY THE MANAGING DIRECTOR TO THE BIS ON MONDAY MORNING. PLEASE CHECK THE WORDING CAREFULLY AND TELEPHONE BRIAN ROSE ON SATURDAY OR SUNDAY (202-966-6052).

QUOTE: THE MEETING HELD IN ZURICH ON APRIL 16, WHICH WAS CALLED BY THE YUGOSLAV AUTHORITIES AND WAS ATTENDED BY REPRESENTATIVES OF THE BANKS AND GOVERNMENTS PARTICIPATING IN THE FINANCIAL SUPPORT PACKAGE AND THE FUND HAS MADE ENCOURAGING PROGRESS IN RESOLVING THE DIFFICULTIES OUTSTANDING, WHICH WILL FACILITATE MORE RAPID IMPLEMENTATION OF THE PACKAGE. I MUCH HOPE THAT THE BIS WILL NOW BE ABLE TO PROCEED WITH THE AGREED DISBURSEMENTS FOR YUGOSLAVIA. THE SHORT-TERM BIS FINANCIAL SUPPORT IS AN IMPORTANT COMPONENT OF THE OVERALL FINANCING PACKAGE AND ITS DISBURSEMENT WILL MAKE A SIGNIFICANT CONTRIBUTION TO THE SOLUTION OF YUGOSLAVIA'S CURRENT DIFFICULTIES. UNQUOTE

BEST REGARDS, WHITTOME

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

A

B

C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): L.A. Whittome EXT.: 73074 DEPT.: EUR DATE: 15 April 1983

E AUTHORIZED BY NAME (TYPE): L.A. Whittome AUTHORIZED BY NAME (TYPE): (**

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F Log D1998

EC. 48 REV 1
11-18-82

G Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

LIST OF 2

Mrs. Helen Junz
Dolder Grand Hotel
Zurich
Switzerland

Mr. Paul Mentré
Dolder Grand Hotel
Zurich
Switzerland

Telex No. of Dolder Grand Hotel 53449

APR 15 1983

Office Memorandum

TO : The Managing Director

DATE: April 15, 1983

FROM : L.A. Whittome

SUBJECT : Yugoslavia

I spoke this morning with Mr. Schleiminger who informed me that the BIS had decided to delay disbursement of the $300 million portion of the BIS package until they could be assured by the Fund that this disbursement was appropriate and that progress was being made in putting together the joint financial package. The BIS will await a formal communication from you reporting on the outturn of the meeting being held tomorrow in Zurich; as you know this meeting has been called by the Yugoslav authorities to bring together the banks and participating governments in the joint financial package to expedite the finalization of the package. Fund representatives at this meeting include Mrs. Junz and Mr. Mentré. Clearly it is vital that this meeting be viewed as a success and it is urgent that the message be telexed from Washington to the BIS on Monday, April 18.

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cc: The Deputy Managing Director
Mr. Carter
CED

April 14, 1983

Dear Paul,

In preparing for a meeting on Friday I have had a quick look at some of the most recent figures coming from Yugoslavia and I confess that they show an extremely worrying position. As you will have seen from the cable I have sent today to Makic we have got agreement on a one week mission beginning on April 18. If the figures are as bad as they seem to be it may be that this visit should be largely devoted to persuading them to take early action but I leave this decision in your hands. Finally don't forget that you stroke the Yugoslav cat.

With best wishes,

L.A. Whittome

cc: Mrs. Junz
Ms. Ripley

April 14, 1983

Dear Helen,

One point which should be made forcibly in Zurich is that it is madness for the Yugoslavs to keep paying off the principal of a variety of small loans only to fall into longer delays as regards interest and other current payments. Paul, to whom I am copying this letter, must please follow this up in Belgrade.

Yours ever

L.A. Whittome

cc: Mr. Mentré
Ms. Ripley
Mr. Manison

Ms. Ripley   April 14, 1983

L.A. Whittome

<u>Yugoslavia</u>

When time allows it would be of great use if Mr. Manison could write up his reflections, which could usefully be wide ranging, on his experiences in Yugoslavia. In particular can he cover the question as to why have our programs seemingly become less effective, is it the circumstances, is it the changes in Yugoslavia, are we showing less imagination, or is the statement indeed true?

cc: Mr. Mentré
Mr. Hole — Lynne
Mr. Manison

cc: PCH

pl. say to PCH on return "This is the sort of thing which it is easy to support — and very hard to pull off. Poland apart (i.e. assuming it remains dormant), would it not be wise to give Les, when he moves over to you, or if you like before, say, two months to do this job AND NOTHING ELSE. Without the last three words the job will not get done." I know I shall be back before Peter but I will by then (I hope) have forgotten all about Eastern Europe.

Brian

Mr. Mentré April 14, 1983

L.A. Whittome

Yugoslavia--June

Please bear in mind that the Managing Director will be in Belgrade on June 8 for an UNCTAD meeting. He has said that if useful he would seek to find time to reinforce any points of substance that you were making but were not being accepted.

cc: Ms. Ripley

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS [illegible]E BOX

MARK XX FOR CODE
(______) CODE

mr. PAUL MENTRE
INTERFUND
PARIS
FRANCE

DISTRIBUTION

START TEXT HERE

HELEN IS ALSO PLANNING, IN ADDITION TO MEETING WITH THE YUGOSLAVS, TO MEET WITH THE AMERICANS ON SATURDAY MORNING AND TO HAVE DINNER WITH MANUFACTURERS HANOVER ON FRIDAY EVENING, FOLLOWING HER ARRIVAL AT 19:40 VIA VIENNA. WOULD YOU PLEASE ARRIVE, IF POSSIBLE, IN ZURICH IN TIME FOR DINNER FRIDAY. YOU MIGHT WISH TO STAY AT THE DOLDER FOR CONVENIENCE. I HAVE ADVISED HER THAT I WOULD LIKE YOU TO PARTICIPATE IN THESE MEETINGS AS WELL. WOULD YOU PLEASE GET IN TOUCH WITH HER AT THE DOLDER OR WITH MR. MANISON AT THE BAUR DU LAC TO CONFIRM THE TIMING. WOULD YOU ALSO PLEASE LET US KNOW WHICH HOTEL YOU WILL BE STAYING IN IN ZURICH.

REGARDS

WHITTOME

DO NOT TYPE HERE

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE) D. Ripley EXT.: 73807 DEPT.: EUR DATE: Apr.14 1983

AUTHORIZED BY NAME (TYPE) L.A. Whittome AUTHORIZED BY NAME (TYPE) (**)

FOR CABLE ROOM USE ONLY TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words ______ Log ______ Route ______ Operator ______

SEC 48
10-21-81

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

PLEASE KEEP SIGNATURE IN SPACE ALLOWED

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS HERE BOX

MRS. HELEN JUNZ
FORUM HOTEL
224178 FORUM H
BUDAPEST, HUNGARY

MARK XX FOR CODE
( ) CODE

DISTRIBUTION

DO NOT TYPE HERE

START TEXT HERE

HAVE NOTED YOUR INTENTIONS OF MEETING WITH CORNELL SATURDAY MORNING AND ALSO TOUCH BASE WITH MANUFACTURERS HANOVER PEOPLE FRIDAY EVENING, AS WELL AS MEETING WITH THE YUGOSLAVS. WOULD YOU PLEASE INCLUDE MENTRE IN THESE MEETINGS. I HAVE ASKED HIM TO ARRIVE IN ZURICH BY FRIDAY EVENING AND HAVE ALERTED HIM TO YOUR TENTATIVE SCHEDULE. WILL SUGGEST THAT HE STAY AT THE DOLDER TO BE IN EASY CONTACT. IF THIS IS NOT POSSIBLE, I WILL TELEX YOU HIS HOTEL. I HAVE ASKED HIM TO CONTACT YOU OR MANISON IN ZURICH TO CONFIRM SCHEDULE.

REGARDS

WHITTOME

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

A

B

C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE) D. Ripley — EXT.: 73807 — DEPT.: EUR — DATE: Apr.14, 1983

E AUTHORIZED BY NAME (TYPE) L.A. Whittome — AUTHORIZED BY NAME (TYPE) (**)

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F No. of words ____ Log ____ Route ____ Operator ____

SEC 48 10-21-81

G SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

1 PLEASE KEEP SIGNATURE IN SPACE ALLOWED

INTERNATIONAL MONETARY FUND

April 14, 1983

TO : Mr. L. A. Whittome LW

FROM: Charles H. Dallara CHD by TAC

Pursuant to the understandings which had been reached yesterday, the attached letter from the Swiss Embassy in Washington was received in Treasury this morning. Presumably similar letters have been delivered in other capitals. As of late this morning, Treasury had not received any further communication from Smole in the last two days.

Attachment

CC: Ms. Ripley
Mr. Manison

EMBASSY OF SWITZERLAND

Washington, April 13, 1983

Dear Mr. Leland,

My government instructed me to transmit to you the following message from State Secretary Raymond Probst:

"Dear Sir,

The government of Yugoslavia has invited representatives of the governments having participated in the Berne negotiations of last January, of the International Coordinating Committee of the commercial banks and of the IMF to a meeting in Zurich concerning the matter of financial assistance to Yugoslavia.

This meeting is now scheduled for Saturday, April 16, 1983, at 11:30 a.m.

We believe that it would be most useful for the representatives of interested governments to have an exchange of views on the present situation beforehand.

We have therefore the honor to invite you to a preliminary meeting for government representatives alone on the same day at 9:30 a.m.

./.

The Honorable
Marc E. Leland
Assistant Secretary
U.S. Department of the Treasury
Washington, D.C.

The place of this preliminary meeting will be communicated to you very shortly.

Sincerely yours,

Raymond Probst
State Secretary
Swiss Federal Department
of Foreign Affairs"

Sincerely yours,

David de Pury
Counselor, Economic Affairs

CC: CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YU
BELGRADE
YUGOSLAVIA

MARK XX FOR CODE
( ) CODE

DISTRIBUTION

START TEXT HERE

MRS. JUNZ WILL STAY AT THE DOLDER GRAND HOTEL, ZURICH.
THE PHONE NUMBER IS 251-6231.
REGARDS
WHITTOME

DO NOT TYPE HERE

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/14/83

AUTHORIZED BY NAME (TYPE): ~~L.A. Whittome~~ Brian Rose

AUTHORIZED BY NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words ______ Log ______ Route ______ Operator ______

SEC 48 10-21-81

Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

cc: CED

IMF OFFICIAL CABLE

RECEIVED

1983 APR 14 AM 7: 51

CABLE ROOM

534742

Rcv: @1IM/4.00370 Line: 4

197677 FUND UT

11448 YU SIV

FROM. JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL

TO: MR. WHITTOME, INTER-FUND, WASHINGTON,

WE WOULD APPRECIATE IF YOU COULD SEND TO US THE NAME OF HOTEL OR TELEPHONE NUMBER IN ZURICH OF MADAM HELEN JUNZ BECAUSE I WOULD LIKE MEET MADAM JUNZ BEFORE ZURICH MEETING.

BEST REGARDS AND WISHES

JANKO SMOLE

Grand Dolder

~~41 1 231-650~~
~~221 1650~~

11448 YU SIV
197677 FUND UT

0748 04/14
VIA TRT

?
Time: 07:45 04/14/83 ???
Connect Time : 107 seconds

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THIS BOX

MR. PAUL MENTRE
INTERFUND
PARIS
FRANCE

MARK XX FOR CODE

( ) CODE

DISTRIBUTION

START TEXT HERE

PLEASE SEND THE ATTACHED CABLE TO THE ABOVE ADDRESSEE.

REGARDS

WHITTOME

DO NOT TYPE HERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/14/83

AUTHORIZED BY NAME (TYPE): L.A. Whittome

AUTHORIZED BY NAME (TYPE):

(**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log D1809

SEC. 48 REV 1 11-18-82

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

IMF OFFICIAL CABLE

RECEIVED
1983 APR 14 PM 2: 31
CABLE ROOM

534850

Rcv: @1IM/4.00374 Line: 4

197677 FUND UT

11448 YU SIV

FROM: JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL

TO: MR. PAUL MENTRE, INTERFUND
WASHINGTON DC

REQURTEL DATED APRIL 13. WE WOULD LIKE TO CONFIRM THE PLACE AND
DATE OF THE ZURICH MEETING, HOTEL ''NOVA PARK'' APRIL 16.
AT 11.30 A.M. SWISS LOCAL TIME.
WITH BEST REGARDS AND WHISHES

JANKO SMOLE

11448 YU SIV
197677 FUND UT

1419 04/14
VIA TRT

Time: 14:18 04/14/83 ???
Connect Time : 109 seconds

Eur.

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

DISPATCHED IMF

1983 APR 14 PM 2:59

MARK XX FOR CODE
( ) CODE

MRS. HELEN JUNZ
FORUM HOTEL
224178 FORUM H
BUDAPEST
HUNGARY

DISTRIBUTION

START TEXT HERE

YUGOSLAVS WANT TO MEET WITH YOU BEFORE THE 11.30 MEETING ON SATURDAY. I HAVE GIVEN SMOLE YOUR HOTEL AND TELEPHONE NUMBER (DOLDER GRAND). PLEASE MAKE SURE THAT MENTRE JOINS YOU WHEN YOU MEET WITH THE YUGOSLAVS.

REGARDS

WHITTOME

DO NOT TYPE HERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

A

B

C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/14/83

E AUTHORIZED BY NAME (TYPE): Brian Rose AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F Log D1806

SEC. 48 REV 1 11-18-82

G Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YU
BELGRADE
YUGOSLAVIA

MARK XX FOR CODE
( ) CODE

DISTRIBUTION

START TEXT HERE

MRS. JUNZ WILL STAY AT THE DOLDER GRAND HOTEL, ZURICH.
THE PHONE NUMBER IS 251-6231.
REGARDS
WHITTOME

DO NOT TYPE HERE

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/14/83

AUTHORIZED BY NAME (TYPE): ~~xLxAxxWhittome~~ Brian Rose

AUTHORIZED BY NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words 1983 APR 14 PM 3 15 Log 13 Route Operator

Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC 48
10-21-81

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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START ADDRESS IN THIS BOX

~~MR. PAUL MENTRE~~
~~INTERFUND~~
~~PARIS~~
~~FRANCE~~

DISPATCHED
IMF
1983 APR 14 PM 2:49

MARK XX FOR CODE
(______) CODE

DISTRIBUTION

START TEXT HERE

YUGOSLAVS WANT TO MEET BEFORE 11.30 MEETING ON SATURDAY WITH HELEN AND I HAVE ASKED HER TO INCLUDE YOU. PLEASE CONTACT HER AT THE DOLDER GRAND HOTEL, ZURICH TELEPHONE NUMBER 251-6231 ON FRIDAY OR AT THE FORUM HOTEL, BUDAPEST, TELEPHONE NUMBER 184-339.

REGARDS

WHITTOME

DO NOT TYPE HERE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: SYL [illegible] CABLE ADDRESS:

DRAFTED BY
NAME (TYPE): LAWHITTOME

EXT.: 73074 DEPT.: EUR DATE: 4/14/83

AUTHORIZED BY
NAME (TYPE): Brian Rose

AUTHORIZED BY
NAME (TYPE):

(**) TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log D1818

SEC. 48 REV 1
11-18-82

Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

IMF OFFICIAL CABLE

RECEIVED
I.M.F.

Rcv: @1IM/5.00231 Line: 5

1983 APR 15 AM 7:31

534918

RCA APR 15 0320
248331B IMF UR

CABLE
ROOM

15.04.1983.

ATTENTION MR. WHITTOME - EUROPEAN DEPARTMENT 9120

FULLY INTENDED TO INVOLVE MENTRE AND MANISON IN ALL, REPEAT ALL, PROCEEEDINGS. HOPE TO BE ABLE TO TAKE OPPORTUNITY OF ZURICH MEETING TO PASS TO MENTRE ALL HE FINDS USEFUL FOR NEXT WEEK'S MEETINGS. WILL CALL AFTER ARRIVAL IN ZURICH AT 7:40 P.M. ON OTHER MATTERS. IF TIME INCONVENIENT, PLEASE ADVISE.

REGARDS, JUNZ.

++++

248331B IMF UR
K
U86)&- $947. #.....
Time: 03:18 04/15/83 ???
Connect Time : 117 seconds

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THE BOX

~~MRS. HELEN JUNZ~~

~~DOLDER GRAND HOTEL~~

~~ZURICH~~

~~SWITZERLAND~~

MARK XX FOR CODE

( ) CODE

DISTRIBUTION

START TEXT HERE

I HAVE RECEIVED A CALL FROM SCHLEIMINGER AS A RESULT OF WHICH IT WILL BE NECESSARY FOR THE MANAGING DIRECTOR TO SEND A TELEX TO THE BIS ON MONDAY. THE OBJECT OF THE TELEX WILL BE TO REPORT PROGRESS MADE DURING YOUR MEETING ON SATURDAY. PLEASE TELEPHONE ME TODAY IN ORDER THAT I CAN GIVE YOU MORE DETAILS. BEST WISHES,

WHITTOME

DO NOT TYPE HERE

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

A

B

C TELEX NO.: 53449 CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): BRIAN ROSE EXT.: 73377 DEPT.: EUR DATE: 4/15/83

E AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F No. of words ____ Log D1921 Route ____ Operator ____

SEC 48
10-21-81

G Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN THIS BOX

MR. PAUL MENTRE
DOLDER GRAND HOTEL
ZURICH
SWITZERLAND

MARK XX FOR CODE

(______) CODE

DISTRIBUTION

DO NOT TYPE HERE

START TEXT HERE

I HAVE SENT A TELEX TO HELEN REGARDING A CALL I HAVE HAD FROM SCHLEIMINGER. IF YOU ARRIVE IN ZURICH FIRST PLEASE TELEPHONE ME, 202 477-3074, AS I HAVE ALSO ASKED HELEN TO DO.

REGARDS

WHITTOME

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME — EXT.: 73074 — DEPT.: EUR — DATE: 4/18/8

AUTHORIZED BY NAME (TYPE): xkxBrian Rose — AUTHORIZED BY NAME (TYPE): (**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

Log D1922

Brian Rose

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC. 48 REV 1 11-18-82

Office Memorandum

TO : Mr. Brian Rose

DATE: April 15, 1983

FROM : L.A. Whittome G. for L.A.W.

SUBJECT : Yugoslavia

Schleiminger phoned this morning to say that they had decided to hold up disbursement of the $300 million part of the BIS package until they could be assured by us that it was proper for them to prefinance Fund drawings due in the second half of 1983.

I said that speaking "off the record" there was a danger of a vicious circle. The only net new money made available to Yugoslavia over the past four months had been the initial drawing under the Fund's 1983 program. In consequence during the seasonally very unfavorable first half of the year the Yugoslav position had been under very great stress with an acute shortage of imports which had affected exports etc. We had no figures yet available and these would not become known until May. However, it was just possible that the unexpected stresses would have led to some breaking of performance clauses. Hopefully this would not be so but in any case the program would not be "fully" on course and this might affect performance in the second half of the year.

We then discussed what we could do and he said (and I agreed) that it was basically unlikely that the Zurich meeting would constitute any real breakthrough. However, we both agreed that it was essential that the meeting be presented as a success.

He said that they would wait for a formal communication from us signed by the Managing Director, Deputy Managing Director, or myself. They would most urgently wish to receive a telex on Monday, April 18. The telex would need at least to say that the meeting was "encouraging" and he would very much like us to include some such phrase as the meeting had brought the program nearer to success. This he said was the minimum for them; ideally he would like us to give a judgment as to the wisdom of the BIS making their money available. I demurred at this request.

Please note that both the Managing Director and the Deputy Managing Director will be away on Tuesday so that the telex will have to be sent out on MOnday.

We shall need today to contact Mrs. Junz and Mr. Mentré to ensure that we get a full report of the meeting and advise as to whether we can telex the message Schleiminger says that he must have.

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Can we please telex and perhaps as well phone Junz/Mentré today. Schleiminger made it reasonably clear that a message from the staff attending the Zurich meeting would not be sufficient for his purpose.

cc: Mr. Schmitt
Ms. Ripley

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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START ADDRESS IN THE BOX

MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YU
BELGRADE
YUGOSLAVIA

DISPATCHED IMF 1983 APR 13 PM 12 40

MARK XX FOR CODE (______) CODE

DISTRIBUTION

CC: MR. POLAK

START TEXT HERE

THIS MORNING I HAVE BEEN IN TOUCH WITH THE UNITED STATES GOVERNMENT AND THE SWISS AND I UNDERSTAND THAT THE SWISS ARE NOW PREPARED TO SEND OUT TELEXES TO ALL PARTICIPANTS SUGGESTING THE MEETING ON SATURDAY, APRIL 16 AT 11.30 A.M. IN THE NOVA PARK HOTEL, ZURICH. THE AMERICANS AND THE SWISS UNDERSTAND THAT IN THE MEANTIME YOUR CABLE MAY ALSO HAVE BEEN SENT OUT BUT IT IS NOT EXPECTED THAT THIS WILL GIVE RISE TO ANY DIFFICULTY. I ALSO UNDERSTAND THAT THE SWISS ARE NOW PREPARED TO PLAY A SUPPORTIVE ROLE IN THE PHYSICAL ORGANIZATION OF THE MEETING.

REGARDS
WHITTOME
INTERFUND

DO NOT TYPE HERE

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME — EXT.: 73074 — DEPT.: EUR — DATE: 4/13/83

AUTHORIZED BY NAME (TYPE): L.A. WHITTOME — AUTHORIZED BY NAME (TYPE):

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April 13, 1983

Dear Paul,

By the time you receive this I hope that I will have spoken to you but I wanted to give you a more detailed background to my thinking. It seems to me to make every sense for you to be present at the meeting between governments, banks, the Yugoslavs, and ourselves now scheduled to be held in Zurich on Saturday, April 16. At this meeting the senior Fund "spokesman" should be Helen Junz for she has the essential background. I have told Smole that he should be Chairman and that if he needs to "leave the chair" he should ask the Dutch to take over and I have so warned the Dutch. The Swiss might also be willing to take the chair for a time. The object of the meeting is to clear up outstanding difficulties by bringing all interested parties together. Ideally the meeting should continue until this is done. The obvious danger is that basic issues such as the sharing of financial burdens will be raised again but this has to be avoided. If the meeting is a "success" the BIS (so Schleiminger tells me) will release their $500 million. Indeed the essential basic aim is that the meeting does not provide any excuse for the BIS to further delay disbursement.

I hope that I shall be able to get the agreement of the Yugoslavs that you and your colleagues can begin work in Belgrade on Monday, April 18, arriving Belgrade on Sunday, April 17. Helen will return to Budapest after the Zurich meeting where she will probably need to stay until the end of the month. I assume that you will stay in Belgrade through Friday, April 22 and that you will then return to the United States for your personal reasons. You will then need to go back in early May to complete the quarterly staff visit. In early May you might possibly be joined briefly for a few days by Helen.but I am not sure that this will be useful for it might only confuse the Yugoslavs as to the lines of responsibility. You will have to make up your own mind on this point by April 22 and let Helen know in Budapest. You, of course, in any event, will be the principle Fund spokesman in May.

As I see it the task facing you is that of being a friendly and persuasive uncle besides, of course, the more routine task of bringing ourselves as fully up to date as is possible with developments since December and seeking to spot incipient weaknesses. Power is very diffused in Yugoslavia; even they themselves seem often unaware of where and how decisions will actually be taken. This means that if we are to succeed in beginning a gentle, educational process in order to persuade them by June to make such changes as may be necessary in the areas of interest rates, exchange rates, incomes policy, budget policy, and monetary policy a lot of preliminary softening up has to be done. I would strongly advise you to take your time and not to despise meetings with any official of whatever seniority. I have learnt in Yugoslavia that it is not necessarily the heads of institutions that have the most power. Also, please take it upon yourself to see as many ministries as seem relevant and also meet with the National Bank at several levels. There may be some initial problems with the National Bank in arranging meetings with other government agencies since they traditionally like to keep a jealous rein on Fund/Yugoslav relations. If in addition, with their agreement, you can hold meetings with the main commercial banks situated in Belgrade, with the bankers' association which tends to involve contact with adademics, and with major enterprises, I would certainly encourage you to do this. At the very least you must start a debate going on the areas in contention. At the best you will have persuaded them of the merits of our case. Please also remember that Yugoslavs are not to be bullied and indeed you should keep in mind that it would be a blow not to be able to come to an agreement in June though we must not rule out such a possibility completely.

As regards your team, you have in Les Manison an experienced Yugoslav hand who has taken part in a large number of missions headed by a wide variety of people. He is very competent and his instincts are sound. I would advise you to rely heavily on him. You will have also in Wayne Lewis a person who is a sound economist and has paid at least two visits to Yugoslavia. Wayne is deliberate but it is worth listening to what he says. In accordance with your hint I have also arranged that Duncan Ripley should join you. She has only a limited experience with Yugoslavia, but her participation may be most useful because it will expedite in future the communications flow between the Yugoslav team and the division responsible for Yugoslavia. As you know, the responsibilities for staff and for preparatory work fall primarily within the scope forthe Division Chief and with Manison moving to other work in the autumn continuity is going to be a serious problem. I would also counsel you to keep your team very much in touch with what you are doing and of course you will use them as you think best.

If you have time you may also wish to visit one or more of the Republics but please make sure that if you do this you do so with the knowledge and agreement of the Yugoslav Government and of the National Bank. In each Republic you should seek again to visit the various ministries involved plus the local central bank; it may be very useful to visit the main local commercial banks as well as large enterprises and even local universities.

As I have said earlier, in my experience the Yugoslavs need time to come to decisions. It is therefore important that we begin this pre-negotiation mission as early as possible, else you risk finding that in June, when inevitably you will be up against a deadline, that the basic decisions are not ready to be taken. As we found in December, that is a recipe for chaos. The present timetable for June is that we should be in Belgrade from June 6-24. We have on that occasion to write a review paper that will govern the release of the drawing on August 15. Given the dates of the Board's recess, August 5 is the last possible date for such a meeting of the Board. Given the four week rule the paper will have to be circulated at the latest on July 7 and indeed the period June 24 to July 7 may well provide insufficient time to write, clear, and issue the paper which will have to be of much more than a perfunctory nature. I would therefore think it preferable that you seek to begin again in Belgrade around the end of May with the hope of finishing by mid-June. I attach a brief "problem country" note and recent data pertaining to Yugoslavia that Mr. Manison has prepared and that may be of some interest.

With best wishes,

Yours sincerely,

cc: HBJ
CRD
DR
Attachments

Office Memorandum

MEMORANDUM FOR FILES April 14, 1983

Subject: Yugoslavia: Economic Situation

The Yugoslav external payments position continues to be under heavy pressure. International reserves are now at a precariously low level and increasing difficulties in servicing current payments are being reflected in payments delays for imports and interest. Official foreign exchange reserves amounted to $764 million at end-March (i.e., at the beginning of the seasonally worst quarter), a small proportion of which are considered usable. Externally, the payments difficulties stem not only from the normally adverse seasonal developments in the first part of the calendar year, but are resulting from the unexpected shortfalls in export receipts and workers' remittances and the virtual absence of new loan disbursements. Furthermore, a number of banks are repaying principle on loans outstanding despite the agreed freeze. The BIS credit has yet to be disbursed and problems are being encountered in finalizing the package of financial support to Yugoslavia from commercial banks and Western Governments. It is unlikely that the bank package will be finalized until well into June since detailed data on the composition of Yugoslav external debt by banks being prepared by Peat, Marwick and Mitchell and relevant for the distribution of new bank money are not expected to be available until end-May. These external financing problems are to be addressed at a joint meeting in Zurich on April 16 of the main participants in the interlinked financial package for Yugoslavia.

Official statements acknowledge that export performance in the first part of 1983 has been disappointing. A proliferation of shortages of imported inputs for production and difficulties in procuring spare parts appear to be increasingly hampering exports. In January the inflow of workers' remittances were sharply lower for the fourth consecutive month while tourism is likely to suffer adversely from reports of commodity shortages and shabby service in Yugoslavia. On the positive side the balance of payments can expect some relief from the higher planned increase (20 per cent) in oil imports from the U.S.S.R., and from the fall in international oil prices and interest rates.

While the official policy actions required under the stand-by arrangement to date have been implemented (interest rate, exchange rate and price changes) there are indications that domestic demand and income components are not being sufficiently restrained. The attached table presents the limited available data for the first two months of 1983 in comparison with the same period of 1982 and with the program targets for 1983. Available data indicate that public sector expenditures (based on revenue estimates) are well in excess of plan. There are reports from individual Yugoslavs that their monthly personal incomes continue to rise despite the pledge that they would be kept to their fourth quarter 1982 level in the first quarter of 1983. Monthly price figures indicate that the rate of inflation is accelerating with the retail price and cost of living indices rising by 2.5 per cent and 4.6 per cent, respectively, in February; preliminary reports indicate that consumer prices rose by 8-9 per cent in March alone bringing the 12-monthly rate of inflation to some 40 per cent. Further sizeable price increases can be expected as higher taxes on nearly 500 consumer goods effective in early April are expected to boost the price level by 1 1/2 per cent. Even after taking account of the inflationary effects of the depreciation of the dinar and the recent changes in administered prices, price performance is considerably less favorable than expected, and at this juncture an average price increase of 40 per cent or more cannot be ruled out for 1983.

If the staff indeed confirm that personal incomes and public expenditures are rising at a faster rate than planned, then the Yugoslav authorities are required to take specific direct action in accordance with understandings reached with the Fund to curtail the excessive growth of these expenditure components. Furthermore, the mid-year review of performance under the stand-by arrangement will require a tightening of demand management policies, greater exchange rate action, and further movement on interest rates if there are shortfalls in exports to the convertible currency area and insufficient progress in the stabilization efforts.

L. G. Manison

Attachment

Yugoslavia: Selected Economic Indicators

	Jan.-Feb. 1983 / Jan.-Feb. 1982	Program 1983
	Percentage change	
Industrial production	-0.3	-2.0
Total public expenditures	29.6	13.0
Retail price index	31.0	33.0
Cost of living index	35.2	33.0
Export value		
Total	5.6	-1.4
In convertible currency	27.7 1/	7.5 3/
In nonconvertible currency 2/	-17.8	-13.4
Import value		
Total	-15.1	-3.3
In convertible currency	-22.7	-10.8
In nonconvertible currency 2/	8.3	16.2
Workers' remittances	-47.0	-44.0

1/ Exports to the convertible currency area amounted to 73 per cent of the planned level during the January-February 1983 period; within this area exports to the developing countries are performing much better than those to developed countries which rose by 8 per cent in the first two months of 1983.

2/ Primarily the U.S.S.R., the German Democratic Republic and Czechoslovakia.

3/ Implying a "true" increase of about 11 per cent, i.e., corrected for overvaluation of 1982 export data.

April 13, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - Recent Economic Developments

Any thorough analysis of Yugoslav economic developments in 1983 is limited by the small amount of available data. The attached table presents the limited available data for the first two months of 1983 in comparison with the same period of 1982 and with the program targets for 1983. Available data indicate that public sector expenditures (based on revenue estimates) are well in excess of plan. There are reports from individual Yugoslavs that their monthly personal incomes continue to rise despite the pledge that they would be kept to their fourth quarter 1982 level in the first quarter of 1983. Monthly price figures indicate that the rate of inflation is accelerating with the retail price and cost of living indices rising by 2.5 per cent and 4.6 per cent, respectively, in February; preliminary reports indicate that consumer prices rose by 8-9 per cent in March alone bringing the 12-monthly rate of inflation to some 40 per cent. Further sizeable price increases can be expected as higher taxes on nearly 500 consumer goods effective in early April are expected to boost the price level by 1 1/2 per cent. Even after taking account of the inflationary effects of the depreciation of the dinar and the recent changes in administered prices, price performance is considerably less favorable than expected, and at this juncture an average price increase of 40 per cent or more cannot be ruled out for 1983.

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LGM WL

L.G. Manison and W.Lewis

Att.

cc: Mr. Whittome
Ms. Ripley

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CONFIDENTIAL

MEMORANDUM FOR FILES April 14, 1983

Subject: Discussion with Mr. Chopra on the Status Play with the SAL

I called Mr. Chopra in Belgrade to inform him about Fund activities involving Yugoslavia, and to check on the state of play of the bank discussions. He and Mr. Dubey were in Yugoslavia to try to tighten up the proposals in the draft letter on development policies submitted by the Yugoslav authorities. Some tightening had been agreed in the areas of energy pricing policy and interest rate policies but it was not yet satisfactory and their stay had been prolonged. Further tightening remained to be agreed before any paper could be put to the Bank board. Mr. Chopra said that he and Mr. Dubey would leave at latest on Friday, with or without agreement. If agreement were reached, they expected that the loan would be approved in June. The loan would consist of two tranches: one would be drawn in large part shortly after loan approval, and would be exhausted by end year; the second one would be drawn in the first half of 1984. The loan would be front loaded and would total $250 million. If agreement were not reached this week, then clearly the timetable would slip.

Mr. Chopra noted that the bank communiqué which made bank disbursements conditional on the agreement of the SAL was unacceptable to the IBRD. No tight linkage would be acceptable.

Duncan Ripley

cc: Mr. Whittome
Mrs. Junz
Mr. Mentre

April 13, 1983

Yugoslavia: Problem Country Note

The Yugoslav external payments position continues to be under heavy pressure. International reserves are now at a precariously low level and increasing difficulties in servicing current payments are being reflected in payments delays for imports and interest. Official foreign exchange reserves amounted to $764 million at end-March (i.e., at the beginning of the seasonally worst quarter), a small proportion of which are considered usable. Externally, the payments difficulties stem not only from the normally adverse seasonal developments in the first part of the calendar year, but are resulting from the unexpected shortfalls in export receipts and workers' remittances and the virtual absence of new loan disbursements. Furthermore, a number of banks are repaying principle on loans outstanding despite the agreed freeze. The BIS credit has yet to be disbursed and problems are being encountered in finalizing the package of financial support to Yugoslavia from commercial banks and Western Governments. It is unlikely that the bank package will be finalized until well into June since detailed data on the composition of Yugoslav external debt by banks being prepared by Peat, Marwick and Mitchell and relevant for the distribution of new bank money are not expected to be available until end-May. These external financing problems are to be addressed at a joint meeting in Zurich on April 16 of the main participants in the interlinked financial package for Yugoslavia.

While the official policy actions required under the stand-by arrangement to date have been implemented (interest rate, exchange rate and price changes) preliminary data suggest that domestic demand and income components have not been sufficiently restrained. For example, public expenditures are estimated to have risen by nearly 30 per cent in the first two months of 1983 compared with the same period of 1982 and the planned rise of 13 per cent. If the staff indeed confirm that personal incomes and public expenditures are rising at a faster rate than planned, then the Yugoslav authorities are required to take specific direct action in accordance with understandings reached with the Fund to curtail the excessive growth of these expenditure components. Furthermore, the mid-year review of performance under the stand-by arrangement will require a tightening of demand management policies, greater exchange rate action, and further movement on interest rates if there are shortfalls in exports to the convertible currency area and insufficient progress in the stabilization efforts.

Table 1. Yugoslavia: Selected Economic Ratios

(In per cent)

	Current Account Deficit to GSP 1/	Fixed Investment to GSP 1/	Public Sector Surplus to GSP 1/	External Debt Service to Exports of Goods and Services 2/	External Debt Outstanding 3/ to GSP 1/	Oil Imports to Total Imports	Rate of Inflation 4/	Gross Official Reserves: End of Period (In $ bns)
1979	5 1/2	36	0.1	15	22	17	23.9	1.3
1980	3 1/2	34	-0.7	16	28	24	39.4	1.5
1981	3	31	0.7	25	29	24	39.2	1.7
1982	2 1/2	29	0.7	24	33	22	30.7	0.9
1983 Projected	1 1/2	28	... 5/	34	49	23	30.0	1.7

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

1/ Gross domestic product is not measured directly in Yugoslavia. Only the aggregate gross social product is constructed; the latter excludes demand for and output from the following services: social and cultural activities, administrative agencies (mainly civil service), liberal professions, and arts and crafts rendering personal services. Gross domestic product is estimated to be about 15 per cent greater than gross social product.

2/ Relates to transactions with the convertible currency area, and excludes debt servicing to the IMF.

3/ Includes outstanding short- and longer-term debt in convertible currencies, and excludes IMF credit.

4/ Twelve-month rate of increase in the retail price index to the end of the period.

5/ The public sector is expected to produce a small surplus in 1983.

April 13, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - Recent Economic Developments

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Office Memorandum

April 13, 1983

MEMORANDUM FOR FILES

weeks? months? and, in time, years?

Subject: Yugoslavia

During the last couple of days Yugoslavia has seemed to occupy a great deal of time and in this note I summarize the position as I have seen it so that if anything comes up when I am away those here will have as full a picture as possible.

On Sunday, April 10 I went through the Yugoslav papers in particular the helpful notes dated April 4 and April 8 written by Mrs. Junz. I then found no difficulty with the proposal to hold a meeting in Switzerland on Friday, April 15 though on reflection it is true that the notes gave only a general impression of what was to be expected from that meeting though to be fair it was probably not possible to be more precise. However, what did strike my eye was the proposed timetable for the next two staff visits to Belgrade. The notes suggested that the first staff visit should begin in early May and given the May 1 holiday this would mean in practical terms beginning work around May 3 or 4. It was foreseen that this visit might last for about 10-14 days and be followed by a review visit which because of the August 15 date for a drawing by Yugoslavia and the Board's recess would have to be geared to a Board meeting not later than August 5. On this timetable and given the need for the paper to lie four weeks with the Executive Directors it was suggested that the review mission would begin work at a technical level on June 6 and would have completed its work by June 24. It seemed to me that this plan of action differed in two important ways from that which we had earlier envisaged though I understand that the reasons for the change were probably to accommodate both the Hungarian and Yugoslav missions consecutively. However, on this last point when in Paris I had spoken to Mrs. Junz and had said that I thought we would have to staff the Yugoslav mission differently for it seemed to me important that the first mission should begin work in Belgrade as soon as possible after the middle of April.

At this point I would recall the original thinking on these dates for it still seems to me to be sound. The first mission which is provided for under the stand-by is a staff visit. Its purpose was twofold. First presentationally it was to concern itself with developments since the completion of the stand-by but secondly and always much more importantly in our mind it was regarded as a vital softening up process to prepare the way for the further decisions which would have to be taken during the course of the review mission in June. Our experience in December had once again emphasized the fact that there is no central point of power as regards economic matters in Yugoslavia. Economic decisions are taken in a wide variety of institutions and are heavily influenced by the views of powerful Republican Governments. If therefore sharp changes in policy are to be agreed it is essential that a learning process be begun as early as possible and cover as wide a field as possible. It was also realized that our need to speak with a wide spectrum of decisionmakers was likely to be opposed by the National Bank who would prefer to keep such matters entirely in their own hands. Past experience has shown us that when indeed the National Bank were successful in this

Amen!

aim disaster was likely to ensue. Further it was originally envisaged that there should be as long a time gap as possible between the staff visit in April and the review mission in June.

Secondly, as regards the June review mission the suggested timetable seemed extremely constraining. In effect it implied that if the mission left Belgrade as planned on June 25 it would be able to circulate its report to Executive Directors in less than two weeks. Given that the most recent figures show a disappointing picture and that the review will need to be a serious affair this was not a believable timetable. Moreover, if one brought the review mission forward in time it would be virtually a continuous operation with the staff visit. Altogether the timetable seemed to me too tight for efficiency or for effectiveness and I thought it necessary to advance the staff visit to next week and so allow the review mission to start at least one week earlier--preferably ten days earlier.

With these considerations in mind I have attempted to bring forward the staff visit to April 18. It would be headed by Mr. Mentré who has hinted clearly that he would be helped by the presence of Ms. Ripley as well as the other members of the usual Yugoslav team. Whether or not we succeed in bringing forward the date of this visit is presently uncertain for the Yugoslavs who are themselves dedicated to procrastination were very pleased by the delays that we had earlier suggested and have now convinced themselves that early May is the earliest possible time for the staff visit to begin work. I hope that in the course of the next two days this matter can be cleared up and that we can agree on an April date. The position is more complicated in that Mentré has a long-standing commitment to be in New York from April 24 until May 1. The plan, if we can get the agreement of the Yugoslavs would therefore be for he and his team to begin general talks on the point that will arise in June during the week of April 18 and then to adjourn on April 23. Mentré himself would return to Belgrade perhaps accompanied by one staff member after the May 1 holiday partly to continue the process he had already begun and possibly to visit the main republics. If we succeed in achieving such a timetable, then we can bring forward the June review mission by at least a week.

Low blow.

So June is concerned with their convenience and we are concerned with Mentré's convenience

Confusion is a perpetual condition in our relations with Yugoslavia.

By Monday, April 11 confusion had begun to arise over the projected meeting for April 15. First Smole telephoned and said that he was under irresistible pressure by the member governments who were in the original package but not included in April 15 meeting and he thought that he could do no more than invite them. I said that if he was under such pressure then he would have to follow his instincts and invite them to that meeting. He then said that so far he had only had replies from two countries (later he said one country) and he was clearly very upset as to what would happen and seemed also uncertain as to where and when the meeting would be held. We cabled Smole the names of the officials to be invited from the six additional countries.

Following Smole's telephone call Ebert telephoned to ask bluntly why the meeting was being held. He said that he very much feared that it could backfire especially as it was being called at very short notice and the banks' negotiations between themselves were still in a delicate phase. I gave him the reasons mentioned in HBJ's memorandum but he wanted to know what exactly these general phrases meant. I instead asked him what his own position was and he said that as far as the banks were concerned there were three outstanding points. The first was whether they could succeed in getting all the 400 or so banks to go along on the rollover and the provision of new money. This looked pretty certain but was not yet completely tied up. Second was the need to allocate the new money between banks but this could not be done until the end of May when the accountants hopefully provided the necessary figures. Unless some ugly surprises were thrown up this should not present undue problems. He stressed that on both these two points the meeting would be irrelevant. He then said that the third point was to make sure that the conditions precedent which were earlier laid down by the banks were indeed in place. He could see that some days ago the meeting might have been thought to have been useful in giving the necessary assurances but in the previous week he had been assured by high levels in the State Department that the Schultz cable to governments had received sufficiently favorable responses as to take care of the basic worry under this third point. He therefore reiterated his view that for the banks there seemed no positive purpose to be gained and went on to stress the fear that some banks might reopen basic issues so that the meeting could lead to greater delays rather than expediting matters. I said I saw these dangers but I assume that they had been very much in the minds of those who had been arranging the meeting and I thought that now that the meeting had been called there could be no question of going back on that decision.

Later Ebert rang back to say that the suggested date of April 15 was quite impossible for the banks for, as he thought we were aware, there was a meeting of the banks on Poland in Zürich on that day. This had been arranged sometime before and it precluded any meeting on Yugoslavia. We then discovered that Dobrich, who is presently somewhere in Europe, had spoken to Popovic and persuaded the latter than the meeting should take place in Zürich on Tuesday, April 19 at a hotel to be rented by the Yugoslavs.

Next in quick succession came telephone calls from the Japanese who complained that we had sent a personal invitation by name to their Minister of Finance to the April 15 meeting and wanted to know why this had happened. The Division straightened this out. There then followed a number of telephone calls from the Swiss Embassy grumbling about the meeting and showing a marked reluctance to take any lead. These calls were again smoothed over by the Division.

On Tuesday, April 12, the U.S. Treasury telephoned about the meeting saying that they had heard presumably from the banks that there was difficulty about the date. They took the view that the meeting had to be held this week for all their relevant people would be completely tied up on other matters next week. Their presence at the meeting is of course essential. I then suggested to them that they might wish, given Smole's obvious lack of capacity to take an effective lead, to suggest a date and place for the meeting. Their reply was that this meeting had not been wished for by them and was a Fund matter and that therefore we would have to take the initiative. However, they agreed that we could plagiarize the suggested agenda for the prior meeting between governments so that Smole would have something of substance to put in his cable of invitation. At this stage I went back in a number of telephone calls to Smole, though I confess I found him increasingly incoherent as the day wore on, in order he has my sympathy. to press him to suggest Saturday, April 16, as the date and to begin the meeting at 10 a.m. and to hold it either in the hotel earlier arranged by Popovic or, if this were not possible, in the Yugoslav Embassy in Bern. I also telexed him a suggested message which he could send to all the governments and to all the banks. I also phoned Ebert to say that we were getting nowhere on next week and it seemed to me that the only possible date was Saturday. I asked him for his best understanding.

Therefore as of the time of writing (morning of April 13) we are still not certain whether the date of the staff visit can be brought forward to April 18 nor are we certain whether the Yugoslavs will follow our advice and set the date for the meeting on Saturday, April 16. During the course of yesterday I spoke twice to Mr. Mentré and asked him to be present at the meeting in Switzerland and I also spoke with Mrs. Junz though the line was atrociously bad and I could hear no more than one word in ten.

Subsequently, later on the morning of April 13, the Americans telephoned to say that the Swiss after more grumbling about the lack of coordination had at last roused themselves and agreed that the meeting should take place on April 16 in Zürich at the Nova Park Hotel at 11.30 a.m. This meeting would be preceded by an intergovernmental meeting at 9.30 a.m. to which neither the banks, the Yugoslavs, nor ourselves are on present intentions to be invited. It is also clear that the Swiss will take a certain but at present unspecified responsibility for organizing the Zürich meeting. I have therefore sent a further cable to Smole telling him what is afoot. As I told the U.S. Treasury I assume that Smole's cable has already been sent out; indeed it would be a pity if it had not for that would destroy the record of continuous misunderstandings that has dogged us in this affair.

Later on April 13 I telephoned Ambassador Loncar and asked for his support in obtaining Belgrade's agreement that the staff visit should take place on April 18. He told me that Belgrade had been thinking of suggesting April 25 as a compromise but I told him that this was impossible for us given Mentré's various commitments. He promised to phone Belgrade. see p.2 ! At the same time I kept him in touch with the latest developments of our new Zürich meeting.

I then spoke to Mr. Dallara and told him that because of Mrs. Junz' commitments on Hungary I had asked Mr. Mentré to take over primary responsibility for Yugoslavia and both of them would be attending the Zürich meeting. He thanked me for the early warning.

I then again phoned Mr. Ebert to make sure that he knew of the revised arrangements in Zürich and I also told him of Mentré's role. Subsequently he, I and the U.S. Treasury got together to agree that it was essential that at the end of this meeting it could be said (or alleged) that the meeting had cleared up all outstanding points. Unless at least this could be said there would be a risk that all that it would have accomplished would be to provide the BIS with another excuse to delay disbursement of the $500 million. All three parties unanimously agreed on the importance of this.

Lastly, in connection with a Board meeting on problem countries, I have noted that the most recent indicators from Yugoslavia suggest that in most of the main areas the December program is not yet working. Perhaps this is an appropriate note on which to conclude this memorandum.

LAW

L. A. Whittome

I conclude that we should advertise for a trained psychoanalyst with particular experience of the Yugoslav, Swiss and U.S. commercial bank psyches.

cc: Mr. Schmitt
Mrs. Junz
Mr. Mentré
Ms. Ripley
Mr. Manison
CED

P.S.

Late on April 13 Makic telexed to say that if essential he could agree to starting on April 18 so long as it was for one week only. I accepted immediately. Paul Mentré will have to arrange the other dates when in Belgrade.

cc: CED
im

Rcv: @1IM/4.00360 Line: 4 **IMF OFFICIAL CABLE** RECEIVED I.M.F.

677 FUND UT

1983 APR 13 AM 10: 44

534615

CABLE ROOM

ORIG: EUR
CC: MD
DMD
MR. N. CARTER

FROM: JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL
TO: MR. WHITTOME, INTERFUND, WASHINGTON DC.

THE FOLLOWING TELX WAS SENT TODAY TO GOVERNMENTS PARTICIPANTS IN THE BERN MEETING AND KUWAIT, ACCORDING TO OUR AGREEMENT WITH KUWAIT.

WE APOLOGISE FOR THE SHORT LEAD TIME THAT WE ARE GIVING YOU, BUT IN VIEW OF THE CONFLICTING NEEDS OF THE VARIOUS PARTICIOANTS WE HAVE HAD TO DELAY BY ONE DAY THE MEETING OF THE BANK AND GOVERNMENT REPRESENTATIVES INVOLVED IN THE FINANCIAL SUPPORT PACKAGE INITIATIVE FOR YUGOSLAVIA, AND HAVE NOW AFTER CONSULTATION AND AGREEMENT WITH THE IMF SET THIS MEETING FOR 10A.M.SWISS LOCAL TIME ON APRIL 16

(SATURDAY) TO THE PLACE AT THE HOTEL ''NOVA PARK'' PART OF THE HOTEL ''KONAK'' KONNFERENZ UND SCHULUNGSZENTRUM, SALE ''G'', BADENER STRASSE 414, TELX 53305, TELEF. 491-2222, RECEPTION THE HOTEL BADENER STRASSE 420, 8055 ZURICH, SWITZERLAND.

WE HAVE UNDERSTOOD THAT SFTER CONSULTATIONS WITH PARTICIPANTS THE IMF CONCLUDED THAT THE PROPOSED TIME AND PLACE ARE BEST SUITED IN THE CEXISTING CIRCUMSTANCES.
I HOPE THAT YOU WILL BE ABLE TO SEND YOUR REPRESENTATIVES TO THIS MEETING AND WOULD APPRECIATE IT IF YOU COULD INFORM ME DIRECTLY AS SOON AS POSSIBLE OF THE NAMES OF YOUR REPRESENTATIVES THAT WILL BE ATTENDING.
IN OUR OPINION THE FOLLOWING SHOULD BE DISCUSSED AT THE MEETING:

1. THERE ARE DISCREPANCIES IN THE CONDITIONS UNDER WHICH THE SUPPORT IS GIVEN BY DIFFERENT PARTICIPANTS. SOME PARTICIPANTS MAKE THEIR SUPPORT CONDITIONAL UPON THE ACTION OF OTHER PARTICIPANTS IN THE SUPPORT, REQUIRING THAT ALL CONDITIONS UNDER WHICH THIS SUPPORT IS GIVEN BE EQUALIZED.
   THESE CONDITIONS REFER TO THE LEVEL OF SUPPORT, TYPES OF SUPPORT, CONDITIONS, SCHEDULING, ETC.
   THE YUGOSLAV SIDE SHALL PRESENT THE EXAMPLES KNOWN TO IT IN THIS REGARD AT THE MEETING.
2. ACCELERATION OF ACTIONS OF ALL PARTICIPANTS IN ORDER TO HAVE THE NECESSARY ACTIVITIES SOMPLETED IN PRESCRIBED TIME.

IT WOULD BE MOST HELPFUL IF YOUR REPRESENTATIVES COULD BE PREPARED TO DISCUSS THE STATUS OF THEIR CONTRIBUTION TO THE FINANCIAL SUPPORT PACKAGE AND ANY DIFFICULTIES THAT MAY HAVE BEEN ENCOUNTERED. WE WOULD PARTICULARLY LIKE THE PARTICIPANTS TO COMMENT ON THE DEGREE OF COOPERATION THAT HAS BEEN ACHIEVED BETWEEN BANKS AND THE GOVERNMENTS AUTHORITIES IN EACH PARTICIPATING COUNTRY, PARTICULARLY WITH RESPECT TO THE ROLLING OVER OF GUARANTEES.
PLEASE TRANSMIT YOUR RESPONSE TO THIS INVITATION AND THE NAME OF YOUR REPRESENTATIVE AT THE APRIL 16 MEETING TO ME AS SOON

IMF OFFICIAL CABLE

AS POSSIBL

W H BEST REGARDS AND WISHES

JANKO SMOLE

WE KINDLY ASK YOU TO FULLY ENGAGE WITH THE GOVERNMENTS AND BANKS, ON THE BASIS OF EARLIER CONSULTATIONS IN ORDER TO PROVIDE FULL PARTICIPATION AND SUCCESS OF THE MEETING, SINCE ONLY THE GOVERNMENT OF NORWAY POSTIVELY RESPONDED TO THE FIRST INVITATION.

JANKO SMOLE

1 577 FUND UT

11448 YU SIV

32 04/13
VIA TRT

Time: 10:35 04/13/83 ???
Connect Time : 546 seconds

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

START ADDRESS IN BOX

MR. PAUL MENTRE
INTERFUND
PARIS
FRANCE

MARK XX FOR CODE
(   ) CODE

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PLEASE REPEAT THE ATTACHED CABLE TO THE ABOVE ADDRESSEE.

WHITTOME
INTERFUND

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SPECIAL INSTRUCTIONS   TEXT MUST END HERE

TELEX NO.:   CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L.A.WHITTOME   EXT.: 73074   DEPT.: EUR   DATE: 4/13/83

AUTHORIZED BY NAME (TYPE): L.A. Whittome   AUTHORIZED BY NAME (TYPE):   (**)

FOR CABLE ROOM USE ONLY   TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words   Log D1658   Route   Operator

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SEC 48
10-21-81

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WASHINGTON, D. C. 20431

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MR. PAUL MENTRE
INTERFUND
PARIS
FRANCE

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L.A.WHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/13/83

AUTHORIZED BY NAME (TYPE): L.A. Whittome

AUTHORIZED BY NAME (TYPE): (**)

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RECEIVED
1983 APR 13 PM 3:19
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534647

Rcv: @1IM/4.00361 Line: 4

197677 FUND UT
11448 YU SIV

ORIG: EUR 9.120

FROM: JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL

MR. PAUL MENTRE, INTERFUND
WASHINGTON DC

WE APOLOGISE FOR THE SHORT LEAD TIME THAT WE ARE GIVING YOU, BUT IN VIEW OF THE CONFLICTING NEEDS OF THE VARIOUS PARTICIOANTS WE HAVE HAD TO DELAY BY ONE DAY THE MEETING OF THE BANK AND GOVERNMENT REPRESENTATIVES INVOLVED IN THE FINANCIAL SUPPORT PACKAGE INITIATIVE FOR YUGOSLAVIA, AND HAVE NOW AFTER CON-SULTATION AND AGREEMENT WITH THE IMF SET THIS MEETING FOR 10A.M.SWISS LOCAL TIME ON APRIL 16

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IMF OFFICIAL CABLE

P_EASE TRANSMIT YOUR RESPONSE TO THIS INVITATION AND THE NAME OF YOUR REPRESENTATIVE AT THE APRIL 16 MEETING TO ME AS SOON AS POSSIBL

WITH BEST REGARDS AND WISHES

JANKO SMOLE

12157 YU SIV
197677 FUND UT

1502 04/13
VIA TRT

Time: 15:05 04/13/83 ???
_nect Time : 470 seconds

Mr. Polak April 13, 1983

L.A. Whittome

Yugoslavia--Proposed Joint Meeting of Main Participants in International Financial Package and Staff Missions

1. This is to inform you that the Yugoslav authorities have now invited the governments associated with the Berne package of financial support to Yugoslavia and representative banks of the International Coordinating Committee for Yugoslavia to send representatives to a meeting now to be held in Zurich at 11.30 a.m. on April 16 at the Nova Park Hotel. Government and bank representatives at the meeting will be asked to discuss the status of their contribtions to the financial support package and any difficulties that may have been encountered. The staff will be represented at the meeting by Mrs. Junz and Messrs. Mentré and Manison.

This meeting will be preceeded by a two hour meeting between the representatives of governments to which neither we, the Yugoslavs, nor the banks are to be invited.

2. We have proposed to the Yugoslav authorities that the quarterly staff visit begin on April 18. Apart from the normal review of recent economic developments, the mission will discuss policy issues as a prelude to the economic measures that may be required in accordance with the mid-year review under the stand-by arrangement. In May the staff intends to visit governmental authorities, banks, and enterprises in the republics and autonomous provinces in order to gain a better understanding of the problems and process of decisionmaking in Yugoslavia's decentralized system and to seek to identify more precisely the difficulties facing the decisionmakers on the economic questions that will need to be raised in June.

cc: Ms. Ripley
CED

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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START ADDRESS IN THE BOX

~~MRS. HELEN JUNZ~~

~~FORUM HOTEL~~

~~BUDAPEST~~ LIST OF TWO

~~HUNGARY~~

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YUGOSLAV MEETING NOW FIRMED UP FOR 11.30 A.M. IN THE NOVA PARK HOTEL, ZURICH ON SATURDAY, APRIL 16.

REGARDS

WHITTOME

INTERFUND

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

PLEASE SEND SAME CABLE TO MR. PAUL MENTRE, INTERFUND, PARIS FRANCE.

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME — EXT.: 73074 — DEPT.: EUR — DATE: 4/13/83

AUTHORIZED BY NAME (TYPE): L.A. WHITTOME — AUTHORIZED BY NAME (TYPE):

(**) TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SEC 48 10-21-81

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1983 APR 13 AM 7: 29
CABLE ROOM

CED

534518

7677 FUND UT

123241 FIMIN SF

ORIG: EUR
CC: MD
DMD
MR.N.CARTER

TO: INTERFUND, WASHINGTON, D.C.
MANAGING DIRECTOR JACQUES DE LAROSIERE

FROM: MINISTRY OF FINANCE, HELSINKI
APRIL 13, 1983

DEAR MR. DE LAROSIERE,

THANK YOU FOR YOUR TELEX OF MARCH 16, 1983 CONCERNING SUPPORT PACKAGE FOR YUGOSLAVIA. FINLAND IS PREPARED TO CONTINUE EXTENDING OFFICIALLY SUPPORTED (GOVERNMENT GUARANTEED) CREDITS FOR YUGOSLAVIA. ARRANGEMENTS FOR EXPORT GUARANTEES DURING THE CURRENT YEAR TOTALLING USD 10 MILLION ARE UNDER PREPARATION.

DUE TO LACK OF ACTIVITY BY FINNISH BANKS IN YUGOSLAVIA GUARANTEE ARRANGEMENTS FOR COMMERCIAL BANK FINANCING ARE NOT CONSIDERED FOR THE TIME BEING.

YOURS SINCERELY,

AHTI PEKKALA
MINISTER OF FINANCE

1 677 FUND UT

123241 FIMIN SF

0315 04/13
VIA TRT

Time: 03:13 04/13/83 ???
Connect Time : 146 seconds

IMF OFFICIAL CABLE

RECEIVED

cc: Pl copy to PM

CV: @1IM/2.04387 LINE: 2 1983 APR 13 PM 3: 50 534648

1541 EST
440040 FUND UI

CABLE ROOM

ORIG: EUR
CC: MR. POLAK

11102 NARBAN YU 13.4.1983 NR 10687 H22.35

INTERFUND
WASHINGTONDC
VERY URGENT

FOR MR.WHITTOME, DIRECTOR EUROPEAN DEPARTMENT

REFERRING TO YOUR CABLE OF APRIL 12, WOULD LIKE TO DRAW YOUR ATTENTION AGAIN TO OUR SUGGESTIONS AND ARGUMENTS FROM MY YESTERDAY'S CABLE. ALSO, WOULD LIKE TO REITERATE THAT WE ARE AWARE OF THE USEFULNESS OF A CONTINUOUS DIALOGUE BETWEEN THE FUND AND YUGOSLAV AUTHORITIES.

DUE TO THE GREAT RESPONSIBILITY ASSUMING FOR PREPARATIONS OF CONSULTATIONS, WE HAVE COMMUNICATED TO YOU REASONS FOR A NECESSITY OF FINDING A MORE APPROPRIATE TIME FOR THE FUND STAFF VISIT.

ACCORDING TO INFORMAL INFORMATIONS THAT WE HAVE PREVIOUSLY RECEIVED, WE HAVE EXPECTED CONSULTATIONS IN EARLY MAY. IN THE PRESENT CIRCUMSTANCES MANY REPRESENTATIVES OF THE FEDERAL INSTITUTIONS ARE VERY BUSSY IN IMPLEMENTATION OF ECONOMIC POLICY MEASURERS AND, AS I HAVE ALREADY MENTIONED TO YOU, DATA FOR THE FIRST THREE MONTHS OF 1983 ARE NOT YET AVAILABLE. THESE ARE THE FACTS DUE TO WHICH WE FEEL THAT ALL THE RELEVANT FACTORS SHOULD BE CONSIDERED IN ORDER TO CHOOSE THE MOST CONVENIENT TIME FOR THE SUCCESSFUL CONSULTATIONS. AT THE SAME TIME WISH TO POINT THAT SOME HIGH OFFICIALS AND THEIR ASSOCIATES, PARTICIPATING IN CONSULTATIONS, ARE EXPECTED TO BE IN WASHINGTON, ATTENDING DEVELOPMENT COMMITTEE MEETING AT THAT TIME, THIS ABSENCE COULD REPRESENT ADDITIONAL LIMIT.

THEREFORE, IF YOU CONSIDER, DISPITE ALL RELEVANT FACTS THAT I HAVE MENTIONED, THAT CONSULTATIONS SHOULD START FROM APRIL 18, WE WOULD APPRECIATE IF THEY COULD LAST SHORTER, PERHEPS DURING ONE WEEK.

BEST REGARDS, GOVERNOR MAKIC

440040 FUND UI

NARODNABANKA JUGOSLAVIJE BEOGRAD

440040 FUND UI
G
11102 NARBAN YU

V
REPLY VIA ITT

9-120

SEC-83/1593
Translated by C. Ernst
534433

C-D

RCA APR 12 09:34

ORIG: EUR
CC: MD
DMD
MR.N.CARTER

111688 BMFIN A VIENNA, 1983 04 12 TELEX NO. 159 KICKINGER

FEDERAL MINISTRY OF FINANCE

DEAR MR. DE LAROSIERE:

1. Austria strongly supports the international efforts to provide comprehensive financial assistance to Yugoslavia. The central bank, the banks, and the Ministry of Finance have assumed or anticipated financial commitments, some of them quite large.

2. In the context of its willingness to engage in international cooperation, the country is prepared to give favorable consideration to new ideas and concepts. We have therefore thoroughly examined your request that Austria grant an extension for the repayments of government-guaranteed credits due in 1983 or provide the guarantees required for such extensions.

3. An extension of government-guaranteed 1983 maturities would substantially increase Austria's share in assistance to Yugoslavia. A detailed survey is incomplete as yet, but in any event an additional amount considerably higher than the amount Austria originally accepted in Bern would be involved.

Austria cannot readily make such a contribution, in any case not in addition to the amounts envisaged in Bern. The outcome of the talks in Bern, in particular the overall amount agreed upon there and the laboriously achieved balancing of individual countries' contributions, was arrived at on the assumption that the promised financial package could prevent a (formal or informal) conversion of government-guaranteed 1983 maturities.

If this premise no longer holds, the size and structure of the contributions should be reconsidered. It should be explained why the $1.3 billion package that was originally deemed sufficient is now judged to be much too small. And it would be necessary to allay the fear that, through inclusion of the 1983 maturities, the distribution of the burden among countries would be shifted sharply to the detriment of those countries which initially promised or envisaged untied financial credits or which from the start offered only the refinancing of 1983 maturities because they did not wish to involve their parliaments in this matter.

4. Based on these considerations, we regard the proposed extension (refinancing) of government-guaranteed 1983 maturities not as a supplementation, but as a proposal to restructure the Bern agreements. We are of the opinion that the established contact committee chaired by Switzerland should go thoroughly into the new situation. Austria is prepared to cooperate constructively toward a new agreement.

Very truly yours,

/s/

SALCHER EH.

Received in Cable Room
April 12, 1983

IMF OFFICIAL CABLE

RECEIVED THE ORIGINAL IS BEING TRANSLATED
I.M.F.

Rcv: @1IM/3.05996 Line: 3

RCA APR 12 0934
248331 IMF UR

1983 APR 12 AM 9:46

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ORIG: EUR
CC: MD
DMD
MR.N.CARTER

248331 IMF UR

111688 BMFIN A WIEN, 1983 04 12 FS.NR. 159 KICKINGER

BUNDESMINISTERIUM FUER FINANZEN

SEHR GEEHRTER MR. DE LAROSIERE,

1. OESTERREICH UNTERSTUETZT TATKRAEFTIG DIE INTERNATIONALEN BEMUEHUNGEN UM EINE UMFASSENDE FINANZHILFE AN JUGOSLAWIEN. NOTENBANK, BANKEN UND FINANZMINISTERIUM HABEN ZUM TEIL BETRAECHTLICHE FINANZIELLE VERPFLICHTUNGEN UEBERNOMMEN ODER IN AUSSICHT GESTELLT.

2. DIE BEREITSCHAFT ZUR INTERNATIONALEN KOOPERATION SCHLIESST DIE WOHLWOLLENDE PRUEFUNG NEUER IDEEN UND KONZEPTE EIN. WIR HABEN UNS DAHER EINGEHEND MIT IHREM ERSUCHEN AUSEINANDERGESETZT, OESTERREICH MOEGE DIE 1983 FAELLIGEN RUECKZAHLUNGEN VON STAATSGARANTIERTEN KREDITEN ZEITLICH ERSTRECKEN ODER DIE GARANTIEMAESSIGEN VORAUSSETZUNGEN FUER SOLCHE PROLONGATIONEN SCHAFFEN.

3. DIE PROLONGATION VON STAATSGARANTIERTEN FAELLIGKEITEN 1983 WUERDE DEN OESTERREICHISCHEN ANTEIL BEI DER JUGOSLAWIENHILFE BETRAECHTLICH ERHOEHEN. DETAILLIERTE ERHEBUNGEN SIND NOCH NICHT ABGESCHLOSSEN, DOCH HANDELT ES SICH JEDENFALLS UM EINEN ZUSAETZLICHEN BETRAG, DER ERHEBLICH UEBER DEM IN BERN ZUGESAGTEN URSPRUENGLICHEN BETRAG OESTERREICHS LIEGT.

   EINE SOLCHE LEISTUNG KANN VON OESTERREICH NICHT OHNE WEITERES UND JEDENFALLS NICHT ZUSAETZLICH ZU DEN IN BERN IN AUSSICHT GESTELLTEN BETRAEGEN ERBRACHT WERDEN. DAS ERGEBNIS DER GESPRAECHE IN BERN, INSBESONDERE DIE DORT VEREINBARTE GLOBALSUMME UND DIE MUEHSAM ERREICHTE BALANCE DER LAENDERBEITRAEGE, KAM UNTER DER ANNAHME ZUSTANDE, DASS DANK DEM ZUGESAGTEN FINANZPAKET EINE (FORMELLE ODER INFORMELLE) UMSCHULDUNG DER STAATSGARANTIERTEN FAELLIGKEITEN 1983 VERMIEDEN WERDEN KOENNE.
   FAELLT DIESE VORAUSSETZUNG , SO MUESTEN HOEHE UND STRUKTUR DER BEITRAEGE NEU UEBERDACHT WERDEN. ES MUESSTE ERKLAERT WERDEN, WARUM DAS URSPRUENGLICH FUER AUSREICHEND GEHALTENE PAKET VON 1,3 MRD DOLLAR NUNMEHR ALS VIEL ZU KLEIN EINGESCHAETZT WIRD. UND ES MUESSTE DIE BEFUERCHTUNG ENTKRAEFTET WERDEN, DASS SICH DURCH DIE EINBEZIEHUNG DER FAELLIGKEITEN 1983 DIE ZWISCHENSTAATLICHE LASTENVERTEILUNG STARK VERSCHIEBEN WUERDE, ZUM NACHTEIL JENER LAENDER, DIE ZUNAECHST UNGEBUNDENE FINANZKREDITE ZUGESAGT ODER IN AUSSICHT GESTELLT HABEN UND JENER LAENDER, DIE VON VORNHEREIN NUR DIE REFINANZIERUNG VON FAELIGKEITEN 1983 ANGEBOTEN HABEN, WEIL SIE MIT DIESER

FRAGE NICHT IHRE PARLAMENTE BESCHAEFTIGEN WOLLTEN.

4. AUFGRUND DIESER UEBERLEGUNGEN BETRACHTEN WIR DIE VORGESCHLAGENE PROLONGATION (REFINANZIERUNG) DER STAATSGARANTIERTEN FAELLIGKEITEN 1983 NICHT ALS EINE ERGAENZUNG, SONDERN ALS VORSCHLAG FUER EINE NEUSTRUKTURIERUNG DER BERNER VEREINBARUNGEN. WIR HALTEN DAFUER, DASS SICH DAS BEWAEHRTE KONTAKTKOMITEE UNTER DER LEITUNG DER SCHWEIZ EINGEHEND MIT DER NEUEN SITUATION BEFASST. OESTERREICH IST BEREIT, AN EINEM NEUEN UEBEREINKOMMEN KONSTRUKTIV MITZUWIRKEN.

MIT VORZUEGLICHER HOCHACHTUNG

SALCHER EH.

111688 BMFIN A

248331 IMF UR

VIA RADIO-AUSTRIA
12/04/83 1446GMT

Time: 09:41 04/12/83 EST
Connect Time : 529 seconds

IMF OFFICIAL CABLE

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Rcv: @1IM/4.00357 Line: 4

1983 APR 12 AM 7: 25

534363

197677 FUND UT

CABLE
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SAVEZNO IZVRSNO VECE
KABINET JANKA SMOLEA
BR. 416
12.04.1983. GOD.
B E O G R A D

Please send to Mentre in Paris office
Cable room will send to Paris
4/12

FROM : JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL

TO: MR. PAUL MENTRE, INTERFUND, WASHINGTON DC,

AS AGREED WITH IMF I WOULD LIKE TO INVITE YOU TO A MEETING ON APRIL 15 IN ZURICH IF ACCEPTABLE FOR ALL PARTICIPANTS TO DISCUSS THE INTERNATIONAL FINANCIAL PACKAKE SUPPORTING THE YUGOSLAV ADJUSTMENT PROGRAM. WE WOULD ENVISAGE A STATUS REPORT BY ALL PARTICIPANTS INCLUDING OURSELVES AND THEN WOULD WANT TO DISCUSS ANY PROBLEMS AND POSSIBLE SOLUTIONS THAT HAVE ARISEN IN CONNECTION WITH THE SUCCESSFUL AND TIMELY COMPLETION OF THE PACKAGE. ACCORDINGLY, WE ARE INVITING REPRESENTATIVES FROM CERTAIN GOVERNMENTS INVOLVED IN THE BERNE PACKAGE SELECTED REPRESENTATIVES FROM THE INTERNATIONAL COORDINATING COMMITTEE OF THE COMMERCIAL BANKS AND A REPRESENTATIVE FROM THE IMF. THE YUGOSLAV GOVERNMENT WILL BE REPRESENTED BY MYSELF AND BY MR. POPOVIC FROM THE FEDERAL SECRETARIAT FOR FINANCE. WE WOULD MUCH APPRECIATE IT YOU COULD ACCEPT OUR INVITATION TO THIS MEETING AND LET US KNOW AS SOON AS POSSIBLE WHETHER YOU ARE ABLE TO PARTICIPATE. TELEX 11448 YU SIV - YUGOSLAVIA. FURTHER DETAILS GIVING THE EXACT TIME AND LOCATION OF THE MEETING AND PROPOSED AGENDA WILL BE COMMUNICATED LATER UNQUOTE.

WITH MY BEST REGARDS AND WISHES

JANKO SMOLE

197677 FUND UT

11448 YU SIV
57 04/12
VIA TRT

Time: 05:50 04/12/83 EST

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

cc: LED

START ADDRESS IN BOX

MR. DOUGLAS EBERT
MANUFACTURERS HANOVER TRUST
NEW YORK, N.Y.
telex No. 12211

MARK XX FOR CODE
( ) CODE

DO NOT TYPE HERE

DISTRIBUTION

START TEXT HERE

FOR YOUR PERSONAL INFORMATION WE HAVE SENT OUT THE FOLLOWING CABLE TODAY.

MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
BELGRADE, YUGOSLAVIA

I SHARE YOUR VIEW THAT IT IS OF THE UTMOST URGENCY TO NOW FINALIZE THE TIMING AND LOCATION OF THE MEETING TO BE HELD FOR THE BANKS AND GOVERNMENTS PARTICIPATING IN THE YUGOSLAV FINANCIAL PACKAGE. WE HAVE SPOKEN WITH SOME GOVERNMENTS, AND IT IS CLEAR THAT A SHIFTING OF THE MEETING TIME TO NEXT WEEK IS TOTALLY UNACCEPTABLE TO AT LEAST SEVERAL OF THEM. I WOULD THEREFORE STRONGLY URGE YOU TO SEND AN IMMEDIATE TELEX TO THE GOVERNMENTS NOW INVITED AND TO REPRESENTATIVE BANKS ON THE ICC FROM THOSE COUNTRIES. I WOULD SUGGEST CALLING FOR A MEETING AT 10 A.M. ON SATURDAY, APRIL 16 AT THE ATLANTIS SHERATON HOTEL IN ZURICH IF YOU CAN ARRANGE SUCH ACCOMMODATIONS. I BELIEVE THAT MR. POPOVIC HAD SELECTED THIS HOTEL FOR MEETING

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO. CABLE ADDRESS:

DRAFTED BY NAME (TYPE): D.Ripley EXT.: 73807 DEPT.: EUR DATE: Apr.12,1983

AUTHORIZED BY NAME (TYPE): L.A. WHITTOME AUTHORIZED BY NAME (TYPE):

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words ______ Log ______ Route ______ Operator ______

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC 48 10-21-81

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START TEXT HERE

PURPOSES SO WE HAVE REMAINED WITH HIS SELECTION. OTHERWISE THE MEETING COULD TAKE PLACE AT YOUR EMBASSY IN BERNE BUT THE TELEX SHOULD BE CLEAR AS TO TIME AND LOCATION OF MEETING.

THE DRAFT TELEX THAT SHOULD BE DISPATCHED WITH THE UTMOST URGENCY MIGHT FOR INSTANCE READ:

"WE APOLOGISE FOR THE SHORT LEAD TIME THAT WE ARE GIVING YOU, BUT IN VIEW OF THE CONFLICTING NEEDS OF THE VARIOUS PARTICIPANTS WE HAVE HAD TO DELAY BY ONE DAY THE MEETING OF THE BANK AND GOVERNMENT REPRESENTATIVES INVOLVED IN THE FINANCIAL SUPPORT PACKAGE INITIATIVE FOR YUGOSLAVIA, AND HAVE NOW SET THIS MEETING FOR 10 A.M. ON APRIL 16 (SATURDAY) TO TAKE PLACE AT THE ATLANTIS SHERATON HOTEL, 234 DOELTSCHIWEG, 8055, ZURICH, SWITZERLAND. I HOPE THAT YOU WILL BE ABLE TO SEND YOUR REPRESENTATIVES TO THIS MEETING AND WOULD APPRECIATE IT IF YOU COULD INFORM ME DIRECTLY AS SOON AS POSSIBLE OF THE NAMES OF YOUR REPRESENTATIVES THAT WILL BE ATTENDING. IT WOULD BE MOST

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INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS

TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE) EXT.: DEPT.: DATE:

AUTHORIZED BY NAME (TYPE) AUTHORIZED BY NAME (TYPE)

FOR CABLE ROOM USE ONLY

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE ( )

No. of words Log Route Operator

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC 48 10-21-81

1. PLEASE KEEP SIGNATURE IN SPACE ALLOWED.

WASHINGTON, D. C. 20431

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- 3 -

START TEXT HERE

HELPFUL IF YOUR REPRESENTATIVES COULD BE PREPARED TO DISCUSS THE STATUS OF THEIR CONTRIBUTION TO THE FINANCIAL SUPPORT PACKAGE AND ANY DIFFICULTIES THAT MAY HAVE BEEN ENCOUNTERED. WE WOULD PARTICULARLY LIKE THE PARTICIPANTS TO COMMENT ON THE DEGREE OF COOPERATION THAT HAS BEEN ACHIEVED BETWEEN BANKS AND THE GOVERNMENT AUTHORITIES IN EACH PARTICIPATING COUNTRY, PARTICULARLY WITH RESPECT TO THE ROLLING OVER OF GUARANTEES.

PLEASE TRANSMIT YOUR RESPONSE TO THIS INVITATION AND THE NAME OF YOUR REPRESENTATIVE AT THE APRIL 16 MEETING TO ME AS SOON AS POSSIBLE."

I WOULD APPRECIATE IT IF THE TELEX SENT COULD BE COPIED TO ME IN WASHINGTON. I WOULD PROPOSE THAT MRS. JUNZ, MR. MENTRE AND MR. MANISON SHOULD ATTEND FROM THE FUND AND I SHALL SO INFORM THEM.

REGARDS

WHITTOME

INTERFUND

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE) D.Ripley EXT.: 73807 DEPT.: EUR DATE: Apr.12 1983

AUTHORIZED BY NAME (TYPE) L.A. Whittome

AUTHORIZED BY NAME (TYPE)

(**) TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

FOR CABLE ROOM USE ONLY

No. of words ____ Log ____ Route ____ Operator ____

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

SEC 48 10-21-81

1. PLEASE KEEP SIGNATURE IN SPACE ALLOWED.

TELEX via YUGOSLAV EMBASSY, Washington, D.C.

MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YU
BELGRADE, YUGOSLAVIA

I SHARE YOUR VIEW THAT IT IS OF THE UTMOST URGENCY TO NOW FINALIZE THE TIMING AND LOCATION OF THE MEETING TO BE HELD FOR THE BANKS AND GOVERNMENTS PARTICIPATING IN THE YUGOSLAV FINANCIAL PACKAGE. WE HAVE SPOKEN WITH SOME GOVERNMENTS, AND IT IS CLEAR THAT A SHIFTING OF THE MEETING TIME TO NEXT WEEK IS TOTALLY UNACCEPTABLE TO AT LEAST SEVERAL OF THEM. I WOULD THEREFORE STRONGLY URGE YOU TO SEND AN IMMEDIATE TELEX TO THE GOVERNMENTS NOW INVITED AND TO THE REPRESENTATIVE BANKS ON THE ICC FROM THOSE COUNTRIES. I WOULD SUGGEST CALLING FOR A MEETING AT 10 A.M. ON SATURDAY, APRIL 16 AT THE ATLANTIS SHERATON HOTEL IN ZURICH IF YOU CAN ARRANGE SUCH ACCOMMODATIONS. I BELIEVE THAT MR. POPOVIC HAD SELECTED THIS HOTEL FOR MEETING PURPOSES SO WE HAVE REMAINED WITH HIS SELECTION. OTHERWISE THE MEETING COULD TAKE PLACE AT YOUR EMBASSY IN BERNE BUT THE TELEX SHOULD BE CLEAR AS TO TIME AND LOCATION OF MEETING.

THE DRAFT TELEX THAT SHOULD BE DISPATCHED WITH THE UTMOST URGENCY MIGHT FOR INSTANCE READ:

"WE APOLOGISE FOR THE SHORT LEAD TIME THAT WE ARE GIVING YOU, BUT IN VIEW OF THE CONFLICTING NEEDS OF THE VARIOUS PARTICIPANTS WE HAVE HAD TO DELAY BY ONE DAY THE MEETING OF THE BANK AND GOVERNMENT REPRESENTATIVES INVOLVED IN THE FINANCIAL SUPPORT PACKAGE INITIATIVE FOR YUGOSLAVIA, AND HAVE NOW SET THIS MEETING FOR 10 A.M. ON APRIL 16 (SATURDAY) TO TAKE PLACE AT THE ATLANTIS SHERATON HOTEL, 234 DOELTSCHIWEG, 8055, ZURICH, SWITZERLAND. I HOPE THAT YOU WILL BE ABLE TO SEND YOUR REPRESENTATIVES TO THIS MEETING AND WOULD APPRECIATE IT IF YOU COULD INFORM ME DIRECTLY AS SOON AS POSSIBLE OF THE NAMES OF YOUR REPRESENTATIVES THAT WILL BE ATTENDING. IT WOULD BE MOST HELPFUL IF YOUR REPRESENTATIVES COULD BE PREPARED TO DISCUSS THE STATUS OF THEIR CONTRIBUTION TO THE FINANCIAL SUPPORT PACKAGE AND ANY DIFFICULTIES THAT MAY HAVE BEEN ENCOUNTERED. WE WOULD PARTICULARLY LIKE THE PARTICIPANTS TO COMMENT ON THE DEGREE OF COOPERATION THAT HAS BEEN ACHIEVED BETWEEN BANKS AND THE GOVERNMENT AUTHORITIES IN EACH PARTICIPATING COUNTRY, PARTICULARLY WITH RESPECT TO THE ROLLING OVER OF GUARANTEES.

PLEASE TRANSMIT YOUR RESPONSE TO THIS INVITATION AND THE NAME OF YOUR REPRESENTATIVE AT THE APRIL 16 MEETING TO ME AS SOON AS POSSIBLE."

I WOULD APPRECIATE IT IF THE TELEX SENT COULD BE COPIED TO ME IN WASHINGTON. I WOULD PROPOSE THAT MRS. JUNZ, MR. MENTRE AND MR. MANISON SHOULD ATTEND FROM THE FUND AND I SHALL SO INFORM THEM.

REGARDS.

WHITTOME

INTERFUND

IMF OFFICIAL CABLE

2

Rcv: @1IM/4.00356 Line: 4

534398

197677 FUND UT

11448 YU SIV

SAVEZNO IZVRSNO VECE
KABINET JANKA SMOLEA
BR. 415
12.04.1983. GOD.
B E O G R A D

cc: Pd cahj
CED

FROM : JANKO SMOLE, MEMBER OF THE FEDERAL EXECUTIVE COUNCIL
TO: MR. WHITTOME, INTERFUND, WASHINGTON DC,

TO THE KIND ATTENTION OF MR WHITTOME
CONCERNING MULTILATERAL MEETING IN ZURICH, PLEASE BE ADVISED THAT BY NOW WE HAVE NOT RECEIVED ANY CONFIRMATION OF PRESENCE OF THE INVITED REPRESENTATIVES OF THE GOVERNMENTS AND THE ICC. IN THE MEANTIME INFORMED BY ICC THAT FRIDAY INCONVENIENT AND SHOULD BE REPLACED BY SATURDAY, BECAUSE PREVIOUSLY FIXED MEETING WITH ANOTHER COUNTRY. THEY SAID THEY WILL REVERT TO THE MATTER AGAIN.

PLEASE BE ALSO ADVISED THAT IN ACCORDANCE WITH OUR AGREEMENT WE HAVE EXTENDED THE INVITATION FOR PARTICIPATION TO ALL 15 GOVERNMENTS SIGNATORIES TO THE BERN MEMORANDUM, AS WE DONT SEE GROUND FOR A RESTRICTIVE, SELECTIVE APPROACH. IN CASE OF JAPAN, A DELAY WAS CAUSED BY MISADDRESSING THE INVITATION ORIGINALLY TO THE MINISTER OF FINANCE. SO JAPANESE AMBASSADOR HERE EXPRESSED REASONABLE DOUBTS THAT THEIR NEWLY NIMINATED REPRESENTATIVE WILL BE ABLE TO REACH ZURICH TIMELY.
WE ALSO UNDERSTOOD THAT MR PROBST WILL NOT BE ABLE TO ATTEND ON FRIDAY, FOR SATURDAY STILL UNCLEAR.
TAKING INTO CONSIDERATION THE UNCERTAINTIES STILL PRESENT, WE WOULD APPRECIATE VERY MUCH A HELP BY THE IMF IN CONTACTING AND ASSURING THAT THE COMPETENT PERSONALITIES WILL TAKE PART AS INVITED, WHICH WE DEEM ESSENTIAL FOR THE SUCCESS OF THE MEETING.
I APOLOGIZE FOR BOTHERING YOU WITH ALL SUCH DETAIL, BUT PLEASE NOTE THAT WE ARE STILL ONLY TRYINING TO REESTABLISCH CONTACT WITH MRS JUNZ WHO WAS VERY HELPFUL AND ACTIVELY INVOLVED IN PREVIOUS STAGES OF THIS PROJECT.

MY BEST REGARDS AND WISHES,

JANKO SMOLE

197677 FUND UT

11448 YU SIV

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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START ADDRESS IN THIS BOX

GOVERNOR MAKIC
NATIONAL BANK OF YUGOSLAVIA
BELGRADE
YUGOSLAVIA

MARK XX FOR CODE

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DISTRIBUTION

~~CC:~~ MR. POLAK

cc: HBJ
DR
CED
Smole

START TEXT HERE

THANK YOU FOR YOUR TELEX MESSAGE. I UNDERSTAND YOUR CONCERN THAT IN VIEW OF THE SHORT NOTICE REGARDING DATES OF THE FORTHCOMING STAFF VISIT YOU CANNOT BE FULLY PREPARED FOR THE MISSION. WE ALSO NOTE YOUR POINT ABOUT THE TIMING OF THE DISCUSSION ON THE IMPLEMENTATION OF THE PLAN RESOLUTION AND THE LACK OF FINAL DATA FOR THE FIRST THREE MONTHS OF 1983. I THINK IT MOST IMPORTANT FOR BOTH YOURSELVES AND OURSELVES THAT WE BEGIN WORK ON MONDAY, APRIL 18 REVIEWING SUCH DATA ON RECENT ECONOMIC DEVELOPMENTS AS ARE THEN AVAILABLE BUT MORE IMPORTANTLY OPENING THE PRELIMINARY DISCUSSIONS ON POLICY ISSUES RELEVANT TO THE UNDERTAKINGS UNDER THE STAND-BY ARRANGEMENT. I WOULD SUGGEST THAT OUTSTANDING DATA AND OTHER MATTERS COULD BE TAKEN UP DURING THE FINAL DAYS OF THE STAFF VISIT.

WITH MY BEST PERSONAL REGARDS

WHITTOME

INTERFUND

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): LAWHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/12/83

AUTHORIZED BY NAME (TYPE): L.A.WHITTOME AUTHORIZED BY NAME (TYPE): (**)

FOR CABLE ROOM USE ONLY — TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words ______ Log D1125 Route ______ Operator ______

SEC 48 10-21-81

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Rcv: @1IM/4.00358 Line: 4

CC: DR
NM
ATBJ

197677 FUND UT

11102 NARBAN YU 12.4.1983 NR 10518

INTERFUND 440040
WASHINGTON DC

VERY URGENT

FOR MR. WHITTOME, DIRECTOR EUROPEAN DEPARTMENT.

HAVE RECEIVED YOUR CABLE OF APRIL 11,1983 SUGGESTING THAT THE QUARTERLY CONSULTATIONS TAKE PLACE DURING THE LAST TWO WEEKS OF APRIL, STARTING FROM APRIL 17. WISH TO POINT TO THE DIFFICULTIES TO MAKE ALL THE NECESSARY PREPARATIONS IN A SHORT LAPSE OF TIME AND TO THE FACT THAT BY THE PROPOSED DATE THE FINAL DATA FOR THE FIRST THREE MONTHS IN MANY AREAS WOULD NOT YET BE AVAILABLE. SO THE CONSULTATIONS MIGHT GIVE INADEQUATE RESULTS.
MAY I REMIND YOU THAT ON MARCH 24 WE POINTED TO MR MANISON THAT OUR TIMELY PREPARATIONS WOULD BE FACILITATED IF YOUR QUESTIONNAIRE COULD BE SENT AT LEAST THREE WEEKS IN ADVANCE.
IT IS CUSTOMARY IN OUR COUNTRY THAT THE IMPLEMENTATION OF THE PLAN RESOLUTION IS CONSIDERED IN THE ASSEMBLY IN MAY EACH YEAR.
THEREFORE, WE SUGGEST TO POSTPONE CONSULTATIONS FOR EARLY MAY, AS PREVIOUSLY ANNOUNCED, FROM MAY 9. PLEASE CONFIRM WHETHER THIS DATE IS ACCEPTABLE.
I AM AVAILING MYSELF OF THIS OPPORTUNITY
TO THANK YOU FOR YOUR
PERSONAL ENGAGEMENT LEADING TO THE APPROVAL OF THE REQUEST OF YUGOSLAVIA FOR A STAND-BY FOR 1983.

BEST REGARDS, GOVERNOR MAKIC
NARODNABANKA JUGOSLAVIJE BEOGRAD

197677 FUND UT

11102 NARBAN YU

Mr. Mentré
cl/Yugoslavia
VR 71

Office Memorandum

TO : Mr. Paul Mentré (o/r) ✓
Ms. Duncan Ripley (o/r)

DATE: April 18, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

One of the sillier problems about Yugoslavia is the argument about the date of the Board meeting (see DR's memorandum to LAW of April 14). I do not think it reasonable to expect that the June mission can finish its work in Belgrade before June 17. If that were so, it would, I think, be dangerous to set a target date earlier than July 8 for issuing the Board paper (even that will take some doing). But, if Mr. Polak is adamant that he must be at the Board (and that is to be checked with him), there is sufficient time for the Board to meet on July 22 or 25 if the four-week rule can be waived. I am quite sure Mr. Polak will be willing to consult his colleagues and persuade them that two weeks is long enough; if that is so, I think he will be able to persuade the Managing Director to waive the rule. But we must be sure to get Mr. Polak to take the lead.

I have written this note in response to LAW's view that the de Vries-Ripley conversation left us in a procedural impasse.

cc: Mr. Whittome (o/r)

cc: CFED

IMF OFFICIAL CABLE

RECEIVED I.M.F.

1983 APR 18 AM 6:43

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RCA APR 17 1304
248331 IMF UR

12717 MOSKVA YU

ORIG: EURO
CC: BUREAU OF STAT.
ETR

INTERFUND
WASHINGTON D.C.

U.S.A.

YUGOSLAV MISSION ARRIVED. MANISON, BRIMBLE, LEWIS, PETERSON, WATSON AND SELF.

MENTRE+

248331 IMF UR

12717 MOSKVA YU

being called: Mrs. Brimble
Mrs. Watson

Time: 13:05 04/17/83 EST
Connect Time : 56 seconds

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ETR

IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YUGOSLAVIA

START TEXT HERE

AS PROMISED NAMES AND TELEX ADDRESSES OF PERSONS OF OTHER BERNE GOVERNMENT MEMBER COUNTRIES THAT COULD BE INVITED TO JOINT MEETING ON INTERNATIONAL FINANCIAL SUPPORT FOR YUGOSLAVIA ARE AS FOLLOWS:

MR. J. COLEMAN
DEPARTMENT OF FINANCES
OTTAWA, CANADA TELEX: 533336 FINTB

MR. P. KORTEWEG
TREASURER GENERAL
MINISTRY OF FINANCE
THE HAGUE, NETHERLANDS TELEX: 33141 MIFI NL

MR. L. TANGERAAS
DIVISION CHIEF
MINISTRY OF FOREIGN AFFAIRS
OSLO, NORWAY TELEX: 71004

MR. J. BAUDAUX
MINISTRY OF FINANCE
BRUSSELS, BELGIUM Telex: 26701 TRESOR

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B

C TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L.G. Manison EXT.: 73726 DEPT.: EUR DATE: Apr.11,1983

AUTHORIZED BY NAME (TYPE): L.A. Whittome AUTHORIZED BY NAME (TYPE):

FOR CABLE ROOM USE ONLY

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

F No. of words ______ Log ______ Route ______ Operator ______

SEC 48
10-21-81

G SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

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MR. C.J. LIEBE
DIVISION CHIEF
MINISTRY OF FOREIGN AFFAIRS
COPENHAGEN, DENMARK TELEX:31292
MR. M.E. VIRGIN
AMBASSADOR SPECIAL NEGOTIATOR
MINISTRY OF FOREIGN AFFAIRS
STOCKHOLM, SWEDEN TELEX: 10593
MR. E. HAGFORS
ASSISTANT DIRECTOR
MINISTRY OF FOREIGN AFFAIRS
HELSINKI, FINLAND TELEX: 124636

REGARDING THE JAPANESE GOVERNMENT YOU SHOULD ADDRESS COMMUNICATIONS TO:

MR. H. MITSUHASHI
DIRECTOR, EAST EUROPEAN DIVISION
MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN TELEX: 22350 GAIMU

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): EXT.: DEPT.: DATE:

AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE):

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BEST REGARDS.

WHITTOME

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L.G. Manison EXT.: 73726 DEPT.: EUR DATE: Apr.11,1983

AUTHORIZED BY NAME (TYPE): L.A. Whittome AUTHORIZED BY NAME (TYPE): (**)

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SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

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10-21-81

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WASHINGTON, D. C. 20431

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cc: CED

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MR. RADOVAN MAKIC
GOVERNOR
NATIONAL BANK OF YUGOSLAVIA
BELGRADE, YUGOSLAVIA

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I SHOULD LIKE TO PROPOSE THAT THE FORTHCOMING STAFF VISIT TO YUGOSLAVIA TAKE PLACE DURING THE LAST TWO WEEKS OF APRIL. WE VERY MUCH HOPE THAT THIS IS CONVENIENT FOR YOU AND YOUR ASSOCIATES AT THE NATIONAL BANK AND FOR THE OTHER OFFICIALS CONCERNED SINCE ONLY AN EARLY VISIT WILL MAKE POSSIBLE THE NEEDED PREPARATIONS FOR THE MID-YEAR REVIEW. MISSION MEMBERS MESSRS. PAUL MENTRE (HEAD OF MISSION), BRIMBLE, MANISON, LEWIS, AND PETERSEN AND A SECRETARY WILL ARRIVE SUNDAY APRIL 17 TO BEGIN DISCUSSIONS ON MONDAY IN AREAS NOTED UNDER POINT 1(A) OF THE LONGER TELEX OF APRIL 8.

MRS. JUNZ WOULD EXPECT TO JOIN THE MISSION NEAR THE END OF THE STAY. IT MIGHT PROVE DESIRABLE AND NECESSARY TO POSTPONE UNTIL EARLY MAY SOME OF THE PROPOSED VISITS OUTSIDE OF BELGRADE MENTIONED IN POINT 1(C) OF THE LONGER TELEX; MR. MENTRE AND SOME COLLEAGUES WOULD PROPOSED TO RETURN FOR SUCH VISITS FOLLOWING THE EARLY MAY HOLIDAYS.

I REGRET THAT WE WERE UNABLE TO PROVIDE MORE ADVANCE

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): EXT.: DEPT.: DATE:

AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE):

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No. of words Log 3371 Route Operator

SEC 48
10-21-81

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WASHINGTON, D. C. 20431

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~~YUGOSLAVIA~~

~~PAGE 2~~

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NOTICE OF THE PROPOSED DATES OF THE STAFF VISIT. IN VIEW OF THE SHORTNESS OF TIME I AM ASKING MR. MANISON TO TELEPHONE MRS. HOFMANN TOMORROW (TUESDAY) MORNING TO ANSWER ANY QUESTIONS RELATING TO THIS VISIT.

BEST REGARDS,

WHITTOME

INTERFUND

INITIAL IF REQUIRED

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L. A. WHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/11/83

AUTHORIZED BY NAME (TYPE):

AUTHORIZED BY NAME (TYPE):

(**)

FOR CABLE ROOM USE ONLY

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

No. of words ______ Log ______ Route ______ Operator ______

SEC 48
10-21-81

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Mr Whittome

April 11, 1983

MEMORANDUM FOR FILES

Subject: Discussion with Mr. Buomberger of the Swiss Embassy

Mr. Buomberger reported on a meeting held in Berne this morning to discuss logistical assistance that might be provided to the Yugoslav authorities with their "Zurich" meeting, now scheduled for April 15th. He was unaware that there was a high probability of a shift in the meeting place to Berne. He reported that both the National Bank and the Federal authorities were unwilling to provide any logistical assistance in Zurich; further the Government's reaction would not be influenced by a shift in the meeting place to Berne. If the meeting were to be held in Zurich it would have to be held at the offices of Manufacturers Hanover Trust. He noted that the Swiss were not willing to act as Co-Chairmen for the meeting and their participation would be contingent on the acceptance by most countries invited to participate. In particular he noted that the Swiss would not attend if, for example, the Austrians did not accept the invitation to participate.

One possible reason for the negative Swiss reaction was the fact that the Yugoslavs had sent out their invitation before they had received a reaction from the Swiss Government to their proposal to hold the meeting in Zurich. However, he felt the Swiss were rather remiss in responding to the Yugoslav proposal. Part of the delay could reflect the holidays and Mr. Zwahlen's move to Paris, but there were probably other reasons for the very negative reaction of the Swiss authorities to the Yugoslav initiative.

D. Ripley

cc: Mr. Manison
Mr. Lewis

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. JANKO SMOLE
MEMBER OF FEDERAL EXECUTIVE COUNCIL
11448 YUGOSLAVIA

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1. I HAVE TODAY SENT THE FOLLOWING TELEX TO GOVERNOR MAKIC. I VERY MUCH HOPE IT WILL BE POSSIBLE TO BEGIN THE REVIEW ON APRIL 18 AS SUGGESTED FOR THIS WOULD GREATLY EASE STAFFING DIFFICULTIES AND REDUCE TRAVEL TIME.

QUOTE: I SHOULD LIKE TO PROPOSE THAT THE FORTHCOMING STAFF VISIT TO YUGOSLAVIA TAKE PLACE DURING THE LAST TWO WEEKS OF APRIL. WE VERY MUCH HOPE THAT THIS IS CONVENIENT FOR YOU AND YOUR ASSOCIATES AT THE NATIONAL BANK AND FOR THE OTHER OFFICIALS CONCERNED SINCE ONLY AN EARLY VISIT WILL MAKE POSSIBLE THE NEEDED PREPARATIONS FOR THE MID-YEAR REVIEW. MISSION MEMBERS MESSRS. PAUL MENTRE (HEAD OF MISSION), BRIMBLE, MANISON, LEWIS, AND PETERSON AND A SECRETARY WILL ARRIVE SUNDAY APRIL 17 TO BEGIN DISCUSSIONS ON MONDAY IN AREAS NOTED UNDER POINT 1(A) OF THE LONGER TELEX OF APRIL 18. MRS. JUNZ WOULD EXPECT TO JOIN THE MISSION NEAR THE END OF THE STAY. IT MIGHT PROVE DESIRABLE AND NECESSARY TO POSTPONE UNTIL EARLY MAY SOME OF THE PROPOSED VISITS OUTSIDE OF BELGRADE MENTIONED IN POINT

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SEC 48 10-21-81

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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~~YUGOSLAVIA~~

~~PAGE 2~~

1(C) OF THE LONGER TELEX; MR. MENTRE AND SOME COLLEAGUES WOULD PROPOSE TO RETURN FOR SUCH VISITS FOLLOWING THE EARLY MAY HOLIDAYS.

I REGRET THAT WE WERE UNABLE TO PROVIDE MORE ADVANCE NOTICE OF THE PROPOSED DATES OF THE STAFF VISIT. IN VIEW OF THE SHORTNESS OF TIME I AM ASKING MR. MANISON TO TELEPHONE MRS. HOFMANN TOMORROW (TUESDAY) MORNING TO ANSWER ANY QUESTIONS RELATING TO THIS VISIT.

BEST REGARDS

WHITTOME UNQUOTE.

2. I SUGGEST THAT YOU MAY WISH TO ASK THE DUTCH TO SHARE THE CHAIRMANSHIP OF THE MEETING IN BERNE ON THE 15TH APRIL.

BEST REGARDS,

ALAN WHITTOME

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): L. A. WHITTOME EXT.: 73074 DEPT.: EUR DATE: 4/11/83

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SEC 48 10-21-81

Office Memorandum

TO : Mr. L.A. Whittome

DATE: April 8, 1983

FROM : H. Junz

SUBJECT : Yugoslavia

I. Financial Support Package

According to our telephone conversation of several days ago, we have proceeded to help the Yugoslavs arrange a joint meeting of representatives from the major governments participating in the Berne package, representatives from the ICC of the commercial banks and a representative from the IMF. The meeting is now set for April 15 in Zurich. The exact time and place are still to be determined, but it most likely will be on the premises of the Zurich branch of Manufacturers Hanover. The Swiss chairmanship, now that Zwahlen is no longer there, has become exceedingly cautious and prefers to have a lower profile in this meeting than they maintained with respect to the Berne package.

The agenda for the meeting would be:

1. Status report by all participants, including the Yugoslavs, on the progress of the financial package and on the supporting policies.

2. A discussion of the outstanding problems, and

3. A discussion of possible solutions.

Although we do not expect this meeting to produce concrete results immediately, we would hope that it would bring about a direct dialogue between banks from individual countries and their national governments on the precondition questions. So far, this dialogue has not taken place largely because whoever would initiate it would have bear the costs of rolling over maturing guaranteed or insured credits or of refinancing them. We hope to get agreement on a definite date for reporting the results of such a dialogue.

We are seeking permission to have Les Manison assist at this meeting, partly for continuity, but largely because the Yugoslavs have asked for help in chairing a meeting from both us and the Swiss. I suggested to Smole that he might want to relinquish the chair when he speaks on behalf of Yugoslavia and handover preferably to the Swiss; but if the Swiss opt not to accept, we could act as parliamentary chairman. In your absence, Brian has requested and received permission from me to leave Budapest for one day for the Zurich meeting.

The BIS package is still backing and forthing, but we hope that with the April 15 meeting all obstacles will be removed. I understand that the Fed, at the Basle meeting, finally will go along with the others, but ask that disbursement await the U.S. signal that the commercial banks' attitude, as discerned in the April 15 meeting, gives them confidence that the commercial bank package will be successfully completed by June 27. The U.S. Treasury fully understand that the banks will take this opportunity to talk about burdensharing, NATO issues etc. and that little concrete change in the banks' attitude can be expected to be shown at the meeting.

II. Staff visit - Yugoslavia

Regarding the impending staff visit to Yugoslavia, we still are thinking in terms of back to back timing with the Budapest mission pending your approval. We have outlined an agenda and prepared extensive questions and requests for data which it would take the National Bank some time to prepare. We have asked for this material to be complete at time of arrival so as to make the visit more productive and obviate the interminable sessions in which they read us their data. We view this visit as a prelude to the June negotiations of policies and related performance criteria for the remainder of the year. Therefore, we actually see an advantage in having the staff visit closer to the negotiation mission in terms of timing rather than with the normal six to eight week interval, given that we were there in February to review the situation; a mid-April temperature taking now seems less rewarding and crucial than it would have been had late December turned out to be our last visit. On that basis we would propose the following dates:

May 3-14 for the staff visit, and June 6-24 for mid-year Review with the Fund. Originally we had worked backward from a possible Board meeting date for the review of August 14. However, we found that the Board will be in recess from August 8 through 19, and therefore August 5 would be the last possible date for the Board review meeting in advance of the August 15 purchase date. Working back from that date we arrived 19 days at the June 6-24 window.

If you agree to this scheduling, we would propose to use the May visit for a review of the current economic situation and prospects, an assessment of the financial operations of enterprises, and an investigation into the status and effects of the implementation of the new foreign exchange law. We would use the last two days of the mission for policy discussions with the Dragan group during which we would give our first indications of the areas and the extent of policy actions that we would require in order to reach agreement in June. These clearly would involve interest rates, exchange rates, interenterprise credit and, hopefully, proposals on the further implementation of the foreign exchange law. In May, we should also have data on personal incomes upon which the decision whether or not to activate the powers of the government to intervene directly in incomes policies would be based (in April those data would probably not be available). If such activation is indicated, we would hope to agree already in May that the requisite steps be taken. In June, of course, we would have the opportunity to have a second bite. Along similar lines, we would review the undertakings on the fiscal policy side in May, thus ensuring that whatever lengthy discussion and implementation process for the possible freezing of revenues down the line, could be initiated quickly.

X

I would propose that the mission be staffed as follows: myself, Paul Mentre, Les Manison, Wayne Lewis, Arne Petersen, Michael Brimble, and a secretary. We suggest having Brimble along because we would like him to analyze the Peat, Marwick, and Mitchell debt structure data and help the National Bank set up a permanent reporting base.

cc: Ms. Ripley
Mr. Manison
Mr. Lewis
Mr. Petersen

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MR. JANKO SMOLE

MEMBER OF FEDERAL EXECUTIVE COUNCIL

11448 YUGOSLAVIA

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Mr. Whittome

CED

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ACCORDING TO MY TELEPHONE CONVERSATION WITH YOU WE SUGGEST THAT YOU SEND THE FOLLOWING TELEX TO THE INVITEES LISTED BELOW INVITING THEM TO THE JOINT MEETING BETWEEN YOURSELVES, SELECTED REPRESENTATIVES OF THE BERNE PACKAGE AND SELECTED REPRESENTATIVES OF ICC OF THE COMMERCIAL BANKS:

QUOTE I WOULD LIKE TO INVITE YOU TO A MEETING ON APRIL 15 IN ZURICH TO DISCUSS THE INTERNATIONAL FINANCIAL PACKAGE SUPPORTING THE YUGOSLAV ADJUSTMENT PROGRAM. WE WOULD ENVISAGE A STATUS REPORT BY ALL PARTICIPANTS INCLUDING OURSELVES AND THEN WOULD WANT TO DISCUSS ANY PROBLEMS AND POSSIBLE SOLUTIONS THAT HAVE ARISEN IN CONNECTION WITH THE SUCCESSFUL AND TIMELY COMPLETION OF THE PACKAGE. ACCORDINGLY, WE ARE INVITING REPRESENTATIVES FROM CERTAIN GOVERNMENTS INVOLVE[D] IN THE BERNE PACKAGE, SELECTED REPRESENTATIVES FROM THE NATIONAL COORDINATING COMMITTEE OF THE COMMERCIAL BANKS AND A REPRESENTATIVE FROM THE IMF.

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DRAFTED BY NAME (TYPE) H. Junz EXT.: 72967 DEPT.: EUR DATE: 6 April 1983

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THE YUGOSLAV GOVERNMENT WILL BE REPRESENTED BY MYSELF AND BY MR. POPOVIC FROM THE FEDERAL SECRETARIAT FOR FINANCE. WE WOULD MUCH APPRECIATE IT YOU COULD ACCEPT OUR INVITATION TO THIS MEETING AND LET US KNOW AS SOON AS POSSIBLE WHETHER YOU ARE ABLE TO PARTICIPATE. TELEX 11448 YUGOSLAVIA . FURTHER DETAILS GIVING THE EXACT TIME AND LOCATION OF THE MEETING AND PROPOSED AGENDA WILL BE COMMUNICATED LATER UNQUOTE.

THE SAME MESSAGE SHOULD BE SENT TO MR. DOUGLAS EBERT AT MANUFACTURERS HANOVER WITH AN ADDITIONAL SENTENCE ASKING HIM TO INVITE THE ICC MEMBERS FOR FRANCE AND GERMANY, ANY OTHER ICC MEMBERS HE FEELS THAT HE WISHES TO ADD. I WOULD APPRECIATE YOUR LETTING ME KNOW AS SOON AS THIS INVITATIONAL TELEX HAS BEEN SENT. ON THE CABLE TO MR. PROBST PLEASE REMEMBER TO ADD THAT THE CHOICE OF ZURICH DOES NOT COMMIT THE SWISS GOVERNMENT TO HOSPITALITY AND THAT IF THEY FIND THEMSELVES UNABLE TO EXTEND SUCH HOSPITALITY, ANOTHER

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PLACE OF MEETING IN ZURICH WILL BE FOUND. PLEASE ALSO INDICATE TO THE SWISS THAT YOU WOULD INTEND TO CHAIR THE MEETING. WE WILL HELP YOU AND WORK OUT PRIVATELY HOW EXACTLY THIS MIGHT BE DONE. BUT YOU NEED TO ASSURE THE SWISS NO PRESSURE IS BEING PUT ON THEM.

WITH BEST REGARDS AND GOOD WISHES.

JUNZ

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MR. N. TAKESHITA
MINISTRY OF FINANCE, TELEX 78124980
TOKYO, JAPAN
MR. L. MORRONE
MINISTRY OF THE TREASURY, TELEX 843611149
ROME, ITALY
MR. TIETMEYER
MINISTRY OF FINANCE, TELEX 841 886645
BONN, FEDERAL REPUBLIC OF GERMANY
MR. H. SEIDEL
MINISTRY OF FINANCE, TELEX 847111688
VIENNA, AUSTRIA
MR. DOUGLAS EBERT
MANUFACTURERS HANOVER TRUST, TELEX 12211
270 PARK AVENUE
NEW YORK

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MR. JURGENSEN
MINISTRY OF ECONOMY AND FINANCE, TELEX 842220962
PARIS, FRANCE
MR. M. LELAND
DEPARTMENT OF THE TREASURY, TELEX 248492 TRES UR
WASHINGTON, D.C.
MR. RAYMOND PROBST
MINISTRY OF FOREIGN AFFAIRS, TELEX 845-32176
BERNE,
SWITZERLAND
MR. C.J. CAREY
HM TREASURY TELEX 851-262405 TRSY G
LONDON,
UNITED KINGDOM

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1983 APR -5 AM 5: 38

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Mr. Rose
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IT IS CRUCIAL IN ADVANCE OF THE MEETING OF BIS GOVERNORS THIS COMING WEEKEND, THAT THE BIS HAVE IN HAND BEFORE APRIL 8 YOUR TELEX EXPLAINING THAT AN ACT WAS PASSED, AS TOLD ME BY MR. SMOLE, EMPOWERING THE NATIONAL BANK ON BEHALF OF THE GOVERNMENT TO PUT UP THE SECURITY FOR THE BIS LOAN. SINCE THE NBY DOES NOT OWN THE SECURITY, THERE APPEARS TO BE CONFUSION REGARDING THE ABILITY OF THE BANK TO MAKE COMMITMENTS INVOLVING IT. IF YOU HAVE NOT ADVISED THE BIS ACCORDINGLY, AND AS OF THE MORNING OF APRIL 5TH THEY HAD NOT RECEIVED SUCH AN ADVICE, PLEASE DO SO SOONEST.

REGARDS

JUNZ

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W. 80

Mr. J. Smole
Ministry of Finance
Belgrade, Yugoslavia

YU. FFS

D 418

W. 81

Governor R. Makic
National Bank of Yugoslavia
Belgrade, Yugoslavia

YU. E19. NB

D 428

Mr. Whittome

64486 INTERFUNDWSH

DE MANTRUST NYK 04/04
SRH 4063H
PART ONE
TO: INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

ATTN: HELEN JUNZ

RE: YUGOSLAVIA, TERMS AND CONDITIONS OF BANK FINANCING

FURTHER TO OUR CONVERSATION YESTERDAY REGARDING THE CONDITIONS PRECEDENT TO INITIAL DISBURSEMENT UNDER THE PROPOSED BANK FINANCING AGREEMENT, I'D LIKE TO CLARIFY THE FOLLOWING:

PAGE 6,
I(A) WE AMENDED THE ORIGINAL LANGUAGE IN THIS PARAGRAPH SO THAT EXECUTION BY EACH AND EVERY GOVERNMENT SIGNATORY TO THE BERNE ACCORD OF BILATERAL AGREEMENTS WITH THE YUGOSLAVS WOULD NOT NECESSARILY BE A PRECONDITION TO DISBURSEMENT. WE AGREED TO THIS AFTER POPOVIC EXPLAINED THAT CERTAIN GOVERNMENTS HAD ALREADY INDICATED TO THE YUGOSLAVS THAT EXECUTION OF A BILATERAL AGREEMENT BEFORE JUNE WOULD BE IMPOSSIBLE FOR THEIR OWN INTERNAL POLITICAL REASONS. WE ARE NOT INTERESTED IN TAMPERING WITH THE BERNE PACKAGE, OUR CONCERNS, HOWEVER, ARE TWO-FOLD:

1) THE CASH FLOW IMPLICATIONS (I.E. CASH VALUE AND TIMING) OF THE GOVERNMENTS' PLEDGES, WHICH REMAIN UNCLEAR TO US, AND,

2) THAT GOVERNMENTS AGREE TO EXTEND, OR OTHERWISE AGREE TO A PROCEDURE THAT WILL HAVE THE EFFECT OF EXTENDING FOR THE SAME PERIOD THE UMBRELLA OF PROTECTION AFFORDED BY GUARANTEES OR INSURANCE ISSUED BY SUCH GOVERNMENTS OR THEIR AGENCIES TO CREDITORS ON THOSE PRINCIPAL INSTALLMENTS MATURING IN 1983, WHICH CREDITORS WILL BE ASKED TO EXTEND.

/CHUMH PS

64436 INTERFUNDWSH

DE MANTRUST NYK 04/04
SRH 4063H
INTERNATIONAL MONETARY FUND
WASHINGTON DC
FINAL
PAGE TWO

AGAIN, THIS DOES NOT NECESSARILY MEAN THAT CREDITORS WILL REQUIRE EVERY GOVERNMENT AGENCY TO CONFORM AS A PRECONDITION TO DISBURSEMENT. TO REPEAT, CREDITORS CONCERNS RELATE TO THE OVERALL CONTENT OF THE PACKAGE, AND TO UPHOLDINGHTHE PRINCIPLE OF BURDEN-SHARING.

PAGE 6,
I(D) WE AMENDED THE ORIGINAL LANGUAGE IN THIS PARAGRAPH SO THAT EXECUTION OF AN IBRD AGREEMENT PROVIDING FOR A SAL, THAT COULD BE FULLY DISBURSED IN 1983 WOULD NOT BE A PRECONDITION TO DISBURSEMENT. RATHER, THE ICC HAS AGREED THAT AN UPDATE IN WRITING, FROM THE IBRD/YUGOSLAVS, SATISFACTORY TO THE LENDERS, TOWARDS THE COMPLETION OF AN AGREEMENT WILL SUFFICE. WE SPOKE TO MR. CHOPRA JUST BEFORE THE LAST ICC MEETING AND HE ASSURED US THE DLRS. 200 MILLION FIGURE WAS NOT PROBLEMATICAL. (AS YOU RECALL, AT ZURICH HE ESSENTIALLY COMMITTED THE IBRD TO A DLRS. 250 MILLION SAL).

PAGE 6,
I(E) AS A PRACTICAL MATTER, IT IS RECOGNIZED BY THE ICC THAT SOME PAST-DUE OBLIGATIONS WILL ONLY BE CLEARED UP SIMULTANEOUS WITH DISBURSEMENT.

BEST REGARDS,
DOBRICH/MANTRUST NEW YORK

Office Memorandum

April 4, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - Coordination of Bank-Government Package

Mr. Popovic called me shortly after the basic arrangements with the commercial banks were agreed in London. He pointed out that the insistence of the commercial banks that the government package fit with the banking package was causing problems both in terms of the timing of the final negotiations with the Yugoslavs and in terms of conditions. The interdependence of all these elements may both delay the bank package and further delay the BIS bridging loan. There also are indications that the seasonally adverse movements of the first half of the year in external payments flows of Yugoslavia finally are surfacing. Accordingly, the delays in the BIS package and the delay, to June 27, 1983, of the banking package, are creating pressures on the Yugoslav cash position in foreign currencies despite the suspension of payments of principal on external debt. We have heard that interest payments now are being delayed by some Yugoslav banks and it is likely that there will be an increasing number of such instances.

Mr. Popovic suggested that it might be useful to hold a meeting with some members of the International Coordinating Committee of the commercial banks, the Swiss chair and some representatives of the governments participating in the Berne package, a representative of the IMF, and the Yugoslavs. The purpose of the meeting would be to go over some of the outstanding issues regarding timing and conditions of the individual elements of the package that are dependent on each other, to sort out which of these constitute real problems and to see what solutions can be found. I posed Mr. Popovic's question to Manufacturers Hanover when I was in New York, and was told that the bank had received an identical message from him and was very receptive to the idea. I subsequently spoke to Mr. Whittome in Paris, who encouraged me to help set up such a meeting. He authorized me to consult the Swiss and the U.S. Treasury on this matter. I spoke with Mark Leland, who was most supportive. In fact, Leland will try to arrange his calendar so as to be able to attend such a meeting himself, although I do not put a high probability on his actually turning up. He also offered to help get the right people from other capitals to attend. This would involve the French, Germans, Japanese, British, and Austrians. We have been talking tentatively about a date around April 11, in part because Mr. Dobrich, the Acting Chairman of the ICC, would be in Europe at that time, as would some U.S. Treasury officials. We have not had an answer from the Swiss chair--because of Easter holidays in Europe. Everybody thought it would be best if Mr. Zwahlen could be made available to see this through, although he is in the process of moving to take on the Swiss ambassadorship to the OECD. Mr. Leland said he would approach the Swiss directly and asked us if we would do the same.

I spoke to Mr. Smole today, who called regarding the difficulties with the BIS loan, and he agreed eagerly to such a meeting. He will call tomorrow to arrange for the invitations, which should come from the Yugoslavs, to go out as soon as the Swiss agree. Mr. de Pury, from the Swiss Embassy here, sent out the requisite cables to Probst and Zwahlen on March 31.

H. Junz

cc: Mr. Whittome
Ms. Ripley
Mr. Manison
Mr. Lewis

Vendredi 1er, 21h

April 1/83

Cher Alfred,

J'ai senti tout à l'heure que vous étiez réticent à l'idée de trop différer la

PR visite en Yougoslavie et une autre solution m'est venue à l'esprit.

Pour les raisons que je vous ai dites, il faudrait que je sois à

SJ Washington/New York ou la semaine 26 Avril/2 Mai mais je pourrais très bien être à Belgrade la semaine précédente (en commençant le 18 ou matin ce qui pourrait permettre à Helen de nous rejoindre). On ne ferait alors que Belgrade et je reviendrais début Mai pour Zagreb (et Ljubljana?),

44 ce qui me conviendrait très bien

Votre choix sera le bon. Prévenez m'en au bureau de Paris. A bientôt et merci de votre amicale bienveillance

Paul

P. MONTRÉ

✓ For Mr Montré (o/r)

as you are now, to all intents and purposes, a member of the regular staff, I think I can take the liberty of pointing out that in the Department we do not converse in Bahanese — that is,

Solid Bid

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THE RECENT COMMUNICATION FROM THE BANKS' INTERNATIONAL COORDINATING COMMITTEE (ICC), WHICH HAS ALLOWED ME TO PROCEED WITH PUTTING OUR PROGRAM BEFORE THE EXECUTIVE BOARD, OUTLINES THE PARAMETERS OF THE BANK PACKAGE:

1. THEY WILL MAINTAIN THEIR SHORT-TERM EXPOSURE FOR TWO YEARS;

2. THEY WILL REFINANCE ALL MEDIUM TERM MATURITIES FALLING DUE IN 1983;

3. THEY WILL PROVIDE THE FINANCIAL RESOURCES NECESSARY TO CLEAR UP ARREARS CURRENTLY ESTIMATED AT U.S. DOLLARS 400 MILLION; AND

4. THEY WILL PROVIDE U.S. DOLLARS 600 MILLION IN NEW MEDIUM-TERM LOANS.

IN ORDER TO MAKE THIS PACKAGE FULLY EFFECTIVE THE BANKS NEED A COMMITMENT BY GOVERNMENTS TO ROLLOVER OR RENEW-- DEPENDING UPON INDIVIDUAL INSTITUTIONAL ARRANGEMENTS-- THEIR GUARANTEES OF MEDIUM TERM YUGOSLAV DEBT TO BANKS FALLING DUE IN 1983. IT IS OF COURSE DESIRABLE THAT THE

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AMOUNTS INVOLVED IN SUCH ROLLOVERS SHOULD BE REGARDED AS ADDITIONS TO AMOUNTS INCLUDED IN THE BERNE PACKAGE.

ALTHOUGH IT IS MY UNDERSTANDING THAT BANKS ARE IN THE PROCESS OF REQUESTING THEIR GOVERNMENTS TO ROLLOVER GOVERNMENT GUARANTEES ON YUGOSLAV DEBT COMING DUE IN 1983, I DO NOT KNOW WHAT DECISIONS HAVE BEEN TAKEN. I KNOW THAT ONE GOVERNMENT IS ROLLING OVER VIRTUAKLY ALL OF ITS GUARANTEES AS PART OF THE BERNE PACKAGE. ANOTHER MAJOR PARTICIPANT IN THE BERNE EFFORT HAS INDICATED ITS WILLINGNESS TO DO SO IN ADDITION TO THE BERN UNDERTAKINGS, AS LONG AS ALL OTHER GOVERNMENTS ARE FULLY PREPARED TO DO SO AS WELL.

I BELIEVE THAT IT IS CRITICAL THAT THE FINANCING EFFORT BE BROUGHT TO A SUCCESSFUL CONCLUSION AS RAPIDLY AS POSSIBLE. ACCORDINGLY I ASK THAT YOU DO EVERYTHING FEASIBLE TO DEAL WITH THIS PARTICULAR ISSUE. I WOULD APPRECIATE IT IF YOU COULD KEEP ME INFORMED OF THE PROGRESS BEING MADE IN SECURING THE ROLLOVER OR RENEWAL

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~~OF~~ THESE GUARANTEES.

SINCERELY,

DE LAROSIERE

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DRAFTED BY NAME (TYPE): ~~HB~~Junz/DRipley/vrb EXT.: 72967 DEPT.: EUR DATE: 3/16/83

AUTHORIZED BY NAME (TYPE): J. de Larosiere

AUTHORIZED BY NAME (TYPE):

(**)

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SEC. 48 REV 1 11-18-82

SIGNATURE (PLEASE KEEP SIGNATURE IN SPACE ALLOWED) SIGNATURE

cc: HBJ
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Rcv: @1IM/3.05259 Line: 3

1983 MAR 24 AM 10:51

532433

CABLE ROOM

RCA MAR 24 1019
248331 IMF UR

886645Y BMF D FSNR. 325 24.3.83 16.15 UHR+

DER BUNDESMINISTER DER FINANZEN BONN, 24. MAERZ 1983

MR. JACQUES DE LAROSIERE
MANAGING DIRECTOR
INTERNATIONAL MONETARY FUND

WASHINGTON, D.C.

ORIG: MD
CC: DMD
EURO
MR. N. CARTER

DEAR MR. DE LAROSIERE,

THANK YOU FOR YOUR REPORT ON THE STATE OF INTERNATIONAL ACTION IN SUPPORT OF YUGOSLAVIA.

I AM PLEASED TO CONFIRM THAT THE FEDERAL GOVERNMENT, AS PART OF ITS BERNE COMMITTMENT TOTALLING DM 530 MILLION, IS PRETARED TO MAINTAIN EXISTING GUARANTEES FOR THE PROLONGATION OF MEDIUM TERM YUGOSLAV DEBT TO GERMAN BANKS FALLING DUE IN 1983. THE AMOUNT OF SUCH DEBT IS ABOUT DM 111 MILLION.

SINCERELY
DR. GERHARD STOLTENBERG+

UEBERM.:16.17 UHR+
886645Z BMF DD
248331 IMF UR

Time: 10:17 03/24/83 ???
Connect Time : 147 seconds

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Rcv: @1IM/3.05259 Line: 3

1983 MAR 24 AM 10: 51

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RCA MAR 24 1019
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CABLE ROOM

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DER BUNDESMINISTER DER FINANZEN BONN, 24. MAERZ 1983

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EURO
MR. N. CARTER

Mr Whittome

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UEBERM.:16.17 UHR+
886645Z BMF DD
248331 IMF UR

Time: 10:17 03/24/83 ???
Connect Time : 147 seconds

SPECIAL DELIVERY
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RECEIVED
I.M.F.
1983 MAR 18 AM 10: 34
CABLE
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Cc: LAW
CED

531779

0941 EST

440040 FUND UI
G
11868 NARBAN YU 1

440040 FUND UI
G
11868 NARBAN YU 18.3.1983

WEREPEAT OUR TELEX NO 7887
SENT MARCH 17,1983
PLEASE AVOID DUPLICATION
QUOTE

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.
ATTN: MRS JUNZ
DEAR MRS JUNZ

I HAVE REVIEWED THE ICC OFFER AND HAVE FOUND A NUMBER OF ISSUES DIFFICULT TO ACCEPT. THIS PARTICULARY RELATES TO THE FOLLOWING.

1. THE OFFER ENVISAGES THE BORROWER TO BE, FOR FACILITY 1,
QUOTE
NATIONAL BANK OF YUGOSLAVIA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA JOINTLY AND SEVERALLY, AND/OR SUCH OTHER ENTITY OR ENTITIES AS SHALL BE IN THE BEST INTEREST OF THE LENDERS.
UNQUOTE
WHILE FOR FACILITY 2 IT IS ENVISAGED FOR THE GUARANTOR TO BE:
QUOTE
NATIONAL BANK OF YUGOSLAVIA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA, JOINTLY AND SEVERALLY, AND/OR SUCH OTHER ENTITY OR ENTITIES AS SHALL BE IN THE BEST INTEREST OF THE LENDERS.
UNQUOTE
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THE REASONS FOR SUCH A COUNTER-PROPOSAL ARE WELL KNOWN TO YOU AND THEY RELATE TO THE ECONOMIC AND POLITICAL SYSTEM AS DEFINED IN THE YUGOSLAV CONSTITUTION.

IMF OFFICIAL CABLE

CONCERNING THE CONDITIONS PRECEDENT FOR THE INITIAL DISBURSEMENT, AMONG OTHERS, WE QUOTE THE FOLLOWING QUOTE

/A/ EXECUTION BY EACH GOVERNMENT PARTICIPANT IN THE MEETINGS HELD JANUARY 18-19, 1983 IN BERNE OF SATISFACTORY DOCUMENTS WHICH WILL HAVE THE EFFECT OF /I/ EXTENDING OR REFINANCING, ON TERMS NO MORE FAVOURABLE THAN THE TERMS ON WHICH THE LENDERS AGREE TO EXTEND OR REFINANCE, COMPARABLE INSTALMENTS OF YUGOSLAV INDEBTEDNESS WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS TO SUCH GOVERNMENT PARTICIPANT AS WELL AS PRINCIPAL INSTALMENTS OR PART THEREOF WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS AND WHICH ARE GUARANTEED OR INSURED BY SUCH GOVERNMENT OR ITS AGENCIES OR INSTRUMENTALITIES AND /II/ CREATING NEW CREDIT FACILITIES AS AGREED AT SUCH MEETINGS / A SCHEDULE SHALL BE PROVIDED/.

/B/ EXECUTION OF SATISFACTORY DOCUMENTATION PROVIDING FOR A DOLL 500 MILLION BIS CREDIT FACILITY TO BE AVAILABLE TO YUGOSLAVIA DURING 1983.

/D/ EXECUTION BY THE INTRNATINAL BANK FOR RECONSTRUCTION. AND DEVELOPMENT AND YUGOSLAVIA OF A SATISFACTORY AGREEMENT PROVIDING FOR STRUCTUAL ADJUSTMENT LOANS IN AN AGGREGATE SUM OF NOT LESS THAN DOLL 200 MILLION DURING 1983.

HE ICC PROPOSAL CONCERN AN AREA WHICH SHOULD BE REGULATED BETWEEN THE YUGOSLAV AND FOREIGN GOVERNMENTS CONCERNING POINT D/.
XXX
BX A/, THE BIS AND THE NATIONAL BANK OF YUGOSLAVIA CONCERNING POINT B/, AND THE IBRD AND THE YUGOSLAV GOVERNMENT CONCERNING POINT D/.

AD THIS STAGE WHILE THE ARRANGEMENTS BETWEEN THE YUGOSLAV AND FOREIGN GOVERNMENTS ARE NOT COMPLETE, IT IS IMPOSSIBLE AND IMPROPER FOR THE ICC TO TRY TO IMPOSE ITS INTERESTS UPON MATTERS THAT CONCERN GOVERNMENTS. WHILE I WOULD NOT OBJECT TO A MORE GENERAL STATEMENT THAT ARRANGEMENTS BETWEEN GOVERNMENTS AND THE YUGOSLAV GOVERNMENT BE COMPLETED IT IS IMPOSSIBLE FOR US TO ACCEPT THE ABOVE QUOTED ICC PROPOSALS.
FURTHER, WHILE NEGOTIATIONS ON THE SAL ARE PROCEEDING FAIRLY SATISFACTORILY I SEE NO JUSTIFICATION TO SETTING SUCH A RIGID TIME LIMIT TO THEIR COMPLETION.

I WOULD HIGHLY APPRECIATE YOUR SUPORT ON THESE MATTERS WITH THE CHAIRMAN OF THE ICC AND OTHER COMMERCIAL BANKS

BEST REGARDS,
G. POPOVIC, CHAIRMAN,
JUGOSLAV GROUP FOR COORDINATION

440040 FUND UI

Cc: Mr. Jung
CED

5

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CV: @1IM/2.03477 LINE: 2

1983 MAR 18 AM 10: 33

531778

0941 EST

CABLE
ROOM

440040 FUND UI

11868 NARBAN YU 18.3.1983 NR

ORIG: EURO
CC: MD
DMD
MR. N. CARTER

WE REPAT OUR TELEX NO 7892
SENT MARCH 17,1983
PLEASE AVOID DUPLICATION
QUOTE

INTERNATINAL MONETARY FUND
WASHINGTON D.C.
ATTN: MR WHITTOMF

I HAVE REVIEWED THE ICC OFFER AND HAVE FOUND A NUMBER OF ISSUES DIFFICULT TO ACCEPT. THIS PARTICULARY RELATES TO THE FOLLOWING.

1. THE OFFER ENVISAGES THE BORROWR TO BE, FOR FACILITY 1,
QUOTE
NATIONAL BANK OF YUGOSLAVIA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA JOINTLY AND SEVERALLY, AND/OR SUCH OTHER ENTITY OR ENTITIES AS SHALL BE IN THE BEST INTEREST OF THE LENDERS.
UNQUOTE
WHILE FOR FACILITY 2 IT IS ENVISAGED FOR THE GUARANTOR TO BE:
QUOTE
NATIONAL BANK OF YUGOSLAVIA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA, JOINTLY AND SEVERALLY, AND/OR SUCH OTHER ENTITY OR ENTITIES AS SHALL BE IN THE BEST INTEREST OF THE LENDERS.
UNQUOTE
IT IS MY INTENTION TO PROPOSE THAT THE NATIONAL BANK OF YUGOSLAVIA BE THE BORROWER FOR TRANCHE A OF FACILITY 1 UNDER TRANCHE B THE BORROWER SHOULD BE A GROUP OF YUGOSLAV COMMERCIAL BANKS WHILE, THE GUARANTORS COULD BE THE NATIONAL BANK OF YUGOSLAVIA THE GUARANTOR FOR FACILITY 2 COULD BE THE NATIONAL BANK OF YUGOSLAVIA.
THE REASONS FOR SUCH A COUNTER-PROPOSAL ARE WELL KNOWN TO YOU AND THEY RELATE TO THE ECONOMIC AND POLITICAL SYSTEM AS DEFINED IN THE YUGOSLAV CONSTITUTION.
2. CONCERNING THE CONDITIONS PRECEDENT FOR THE INITIAL DISBURSEMENT, AMONG OTHERS, WE QUOTE THE FOLLOWING
QUOTE
A/ EXECUTION BY EACH GOVERNMENT PARTICIPANT IN THE MEETINGS HELD JANUARY 18-19, 1983 IN BERNE OF SATISFACTORY DOCUMENTS WHICH WILL HAVE THE EFFECT OF /I/ EXTENDING OR REFINANCING, ON TERMS NO MORE FAVOURABLE THAN THE TERMS ON WHICH THE LENDERS AGREE TO EXTEND OR REFINANCE,

IMF OFFICIAL CABLE

COMPARABLE INSTALMENTS OF YUGOSLAV INDEBTEDNESS WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS TO SUCH GOVERNMENT PARTICIPANT AS WELL AS PRINCIPAL INSTALMENTS OR PART THEREOF WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS AND WHICH ARE GUARANTEED OR INSURED BY SUCH GOVERNMENT OR ITS AGENCIES OR INSTRUMENTALITIES AND /II/ CREATING NEW CREDIT FACILITIES AS AGREED AT SUCH MEETINGS / A SCHEDULE SHALL BE PROVIDED/.

/B/ EXECUTION OF SATISFACTORY DOCUMENTATION PROVIDING FOR A DOLL 500 MILLION BIS CREDIT FACILITY TO BE AVAILABLE TO YUGOSLAVIA DURING 1983.

/D/ EXECUTION BY THE INTRNATINAL BANK FOR RECONSTRUCTION. AND DEVELOPMENT AND YUGOSLAVIA OF A SATISFACTORY AGREEMENT PROVIDING FOR STRUCTUAL ADJUSTMENT LOANS IN AN AGGREGATE SUM OF NOT LESS THAN DOLL 200 MILLION DURING 1983.

THE ICC PROPOSAL CONCERN AN AREA WHICH SHOULD BE REGULATED BETWEEN THE YUGOSLAV AND FOREIGN GOVERNMENTS CONCERNING POINT D/.
XXX
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FURTHER, WHILE NEGOTIATIONS ON THE SAL ARE PROCEEDING FAIRLY SATISFACTORILY I SEE NO JUSTIFICATION TO SETTING SUCH A RIGID TIME LIMIT TO THEIR COMPLETION.

I WOULD HIGHLY APPRECIATE YOUR SUPORT ON THESE MATTERS WITH THE CHAIRMAN OF THE ICC AND OTHER COMMERCIAL BANKS

BEST REGARDS,
G.POPOVIC, CHAIRMAN,
YUGOSLAV GROUP FOR COORDINATION

440040 FUND UI

Office Memorandum

March 18, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

Mr. Whittome called today from Paris quoting the following views from Leutwiler: "Yugoslavia could take 300 from the BIS if they had an urgent need but if their needs were not urgent he would prefer to wait until the way had been cleared for the other 200 so that there would be a complete package of 500 million."

Mr. Whittome asked me to pass this message on to the Yugoslavs though Leutwiler had already tried to do so. I have spoken to Mrs. Junz, doubting whether we can do very much with this request.

Brian Rose BR

cc: Mrs. Junz
CED

cc: I.O.
CED

IMF OFFICIAL CABLE

RECEIVED
1983 MAR 17 AM 11: 50
CABLE ROOM

531641

RCV: @1IM/2.03430 LINE: 2

1053 EST

440040 FUND UI
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440040 FUND UI
G
11868 NARBAN YU 17.3.1983 NR 7887 H16.50

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.

ATTN: MRS JUNZ
DEAR MRS JUNZ

I HAVE REVIEWED THE ICC OFFER AND HAVE FOUND A NUMBER OF ISSUES DIFFICULT TO ACCEPT. THIS PARTICULARY RELATES TO THE FOLLOWING.

1. THE OFFER ENVISAGES THE BORROWER TO BE, F
OR FACILITY 1,
QUOTE
NATIONAL BANK OF YUGOSLAVIA AND THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA JOINTLY AND SEVERALLY, AND/OR SUCH OTHER ENTITY OR ENTITIES AS SHALL BE IN THE BEST INTEREST OF THE LENDERS.
UNQUOTE
WHILE FOR FACILITY 2 IT IS ENVISAGED FOR THE GUARANTOR TO BE:
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THE REASONS FOR SUCH A COUNTER-PROPOSAL ARE WELL KNOWN TO YOU AND THEY RELATE TO THE ECONOMIC AND POLITICAL SYSTEM AS DEFINED IN THE YUGOSLAV CONSTITUTION.
2. CONCERNING THE CONDITIONS PRECEDENT FOR THE INITIAL DISBURSEMENT, AMONG OTHERS, WE QUOTE THE FOLLOWING
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/A/ EXECUTION BY EACH GOVERNMENT PARTICIPANT IN THE MEETINGS HELD JANUARY 18-19, 1983 IN BERNE OF SATISFACTORY DOCUMENTS WHICH WILL HAVE THE EFFECT OF /I/ EXTENDING OR REFINANCING, ON TERMS NO MORE FAVOURABLE THAN THE TERMS ON WHICH THE LENDERS AGREE TO EXTEND OR REFINANCE, COMPARABLE INSTALMENTS OF YUGOSLAV INDEBTEDNESS WHICH ARE DUE AND PAYABLE IN 1983 BY YUGOSLAV OBLIGORS TO SUCH

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/B/ EXECUTION OF SATISFACTORY DOCUMENTATION PROVIDING FOR A DOLL 500 MILLION BIS CREDIT FACILITY TO BE AVAILABLE TO YUGOSLAVIA DURING 1983.

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I WOULD HIGHLY APPRECIATE YOUR SUPORT ON THESE MATTERS WITH THE CHAIRMAN OF THE ICC AND OTHER COMMERCIAL BANKS

BEST REGARDS

G. POPOVIC, CHAIRMAN,

YUGOSLAV GRUP FOR COORDINATION

440040 FUND UI

REPLY VIA ITT

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TIME: 11:02 03/17/83 ???

CONNECT TIME : 606 SECONDS

CC: Mrs. Jung
CED

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RECEIVED
I.M.F.
1983 MAR 17 AM 11: 31
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RCV: @1IM/2.03431 LINE: 2

1119 EST

440040 FUND UI

11868 NARBAN YU 16. 17.3.1983 NR 7892 H17.15

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.
ATTN: MR WHITTOME
DEAR MR WHITTOME

I HAVE REVIEWED THE ICC OFFER AND HAVE FOUND A NUMBER OF ISSUES DIFFICULT TO ACCEPT. THIS PARTICULARY RELATES TO THE FOLLOWING.

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QUOTE
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IMF OFFICIAL CABLE

UCH MEETINGS / A SCHEDULE SHALL BE PROVIDED/.
/B/ EXECUTION OF SATISFACTORY DOCUMENTATION PROVIDING FOR
A DOLL 500 MILLION BIS CREDIT FACILITY TO BE AVAILABLE TO
YUGOSLAVIA DURING 1983.
/D/ EXECUTION BY THE INTRNATINAL BANK FOR RECONSTRUCTION.
AND DEVELOPMENT AND YUGOSLAVIA OF A SATISFACTORY AGREEMENT
PROVIDING FOR STRUCTUAL ADJUSTMENT LOANS IN AN AGGREGATE
SUM OF NOT LESS THAN DOLL 200 MILLION DURING 1983.

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FOREIGN GOVERNMENTS ARE NOT COMPLETE, IT IS IMPOSSIBLE AND
IMPROPER FOR THE ICC TO TRY TO IMPOSE ITS INTERESTS UPON MATTERS
THAT CONCERN GOVERNMENTS. WHILE I WOULD NOT OBJECT TO A MORE
GENERAL STATEMENT THAT ARRANGEMENTS BETWEEN GOVERNMENTS AND
THE YUGOSLAV GOVERNMENT BE COMPLETED IT IS IMPOSSIBLE FOR US
TO ACCEPT THE ABOVE QUOTED ICC PROPOSALS.
FURTHER, WHILE NEGOTIATIONS ON THE SAL ARE PROCEEDING FAIRLY
SATISFACTORILY I SEE NO JUSTIFICATION TO SETTING SUCH A RIGID
TIME LIMIT TO THEIR COMPLETION.

WOULD HIGHLY APPRECIATE YOUR SUPORT ON THESE MATTERS WITH
THE CHAIRMAN OF THE ICC AND OTHER COMMERCIAL BANKS
BEST REGARDS
G. POPOVIC, CHAIRMAN
YUGOSLAV GROUP FOR COORDINATION

440040 FUND UI

REPLY VIA ITT

?

TIME: 11:28 03/17/83 ???
CONNECT TIME : 580 SECONDS

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

cc: CED

DO NOT SOFT ROLL EXCEPT WHEN ALIGNING INTO LINE 23

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MARK XX FOR CODE
(______) CODE

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DEAR MR. MINISTER:

THE EFFORTS TO ARRANGE AN INTERNATIONAL FINANCIAL PACKAGE IN SUPPORT OF THE ADJUSTMENT PROGRAM OF YUGOSLAVIA ARE WELL UNDER WAY. THE ECONOMIC COOPERATION CREDITS TO BE PROVIDED BY WESTERN GOVERNMENTS WERE AGREED NEARLY TWO MONTHS AGO. THE SHORT-TERM BRIDGING CREDIT BY THE BIS WAS DECIDED UPON ON MARCH 7. ON MARCH 11 THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND TOOK THE NECESSARY DECISIONS TO PUT IN PLACE THE THIRD YEAR OF THE FUND'S STAND-BY ARRANGEMENT WITH YUGOSLAVIA. THE REMAINING ELEMENT OF THE OVERALL FINANCIAL PACKAGE STILL BEING NEGOTIATED IS THAT TO BE PROVIDED BY THE COMMERCIAL BANKS. THIS ELEMENT IS AN INTEGRAL PART OF THE OVERALL PROGRAM AND NECESSARY TO MAKE THE ENTIRE PACKAGE VIABLE. THE EXECUTIVE BOARD HAS THEREFORE DECIDED TO MAKE THE PURCHASE OF FUND RESOURCES AFTER MAY 14 CONTINGENT UPON SUFFICIENT PROGRESS HAVING BEEN MADE IN PUTTING THE COMMERCIAL BANK PARTICIPATION IN PLACE.

~~XXXXXXXX~~
~~XXXXX~~

CC: EURO
MD
DMD
MR. N. CARTER

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS — TEXT MUST END HERE

TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): HBJunz/DRipley/vrb EXT.: 72967 DEPT.: EUR DATE: 3/16/83

AUTHORIZED BY NAME (TYPE): J. Larosiere AUTHORIZED BY NAME (TYPE):

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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WASHINGTON, D. C. 20431

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PAGE 2

THE RECENT COMMUNICATION FROM THE BANKS' INTERNATIONAL COORDINATING COMMITTEE (ICC), WHICH HAS ALLOWED ME TO PROCEED WITH PUTTING OUR PROGRAM BEFORE THE EXECUTIVE BOARD, OUTLINES THE PARAMETERS OF THE BANK PACKAGE:

1. THEY WILL MAINTAIN THEIR SHORT-TERM EXPOSURE FOR TWO YEARS;

2. THEY WILL REFINANCE ALL MEDIUM TERM MATURITIES FALLING DUE IN 1983;

3. THEY WILL PROVIDE THE FINANCIAL RESOURCES NECESSARY TO CLEAR UP ARREARS CURRENTLY ESTIMATED AT U.S. DOLLARS 400 MILLION; AND

4. THEY WILL PROVIDE U.S. DOLLARS 600 MILLION IN NEW MEDIUM-TERM LOANS.

IN ORDER TO MAKE THIS PACKAGE FULLY EFFECTIVE THE BANKS NEED A COMMITMENT BY GOVERNMENTS TO ROLLOVER OR RENEW-- DEPENDING UPON INDIVIDUAL INSTITUTIONAL ARRANGEMENTS-- THEIR GUARANTEES OF MEDIUM TERM YUGOSLAV DEBT TO BANKS FALLING DUE IN 1983. IT IS OF COURSE DESIRABLE THAT THE

IF REQUIRED INITIAL BELOW

SPECIAL INSTRUCTIONS

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AUTHORIZED BY NAME (TYPE): AUTHORIZED BY NAME (TYPE): ( )

TYPE ** ON LAST OR ONLY PAGE OF MESSAGE

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SEC. 48 REV 1 11-18-82

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IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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(______) CODE

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PAGE 3

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AMOUNTS INVOLVED IN SUCH ROLLOVERS SHOULD BE REGARDED AS ADDITIONS TO AMOUNTS INCLUDED IN THE BERNE PACKAGE.

ALTHOUGH IT IS MY UNDERSTANDING THAT BANKS ARE IN THE PROCESS OF REQUESTING THEIR GOVERNMENTS TO ROLLOVER GOVERNMENT GUARANTEES ON YUGOSLAV DEBT COMING DUE IN 1983, I DO NOT KNOW WHAT DECISIONS HAVE BEEN TAKEN. I KNOW THAT ONE GOVERNMENT IS ROLLING OVER VIRTUAKLY ALL OF ITS GUARANTEES AS PART OF THE BERNE PACKAGE. ANOTHER MAJOR PARTICIPANT IN THE BERNE EFFORT HAS INDICATED ITS WILLINGNESS TO DO SO IN ADDITION TO THE BERN UNDERTAKINGS, AS LONG AS ALL OTHER GOVERNMENTS ARE FULLY PREPARED TO DO SO AS WELL.

I BELIEVE THAT IT IS CRITICAL THAT THE FINANCING EFFORT BE BROUGHT TO A SUCCESSFUL CONCLUSION AS RAPIDLY AS POSSIBLE. ACCORDINGLY I ASK THAT YOU DO EVERYTHING FEASIBLE TO DEAL WITH THIS PARTICULAR ISSUE. I WOULD APPRECIATE IT IF YOU COULD KEEP ME INFORMED OF THE PROGRESS BEING MADE IN SECURING THE ROLLOVER OR RENEWAL

IF REQUIRED INITIAL BELOW

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SEC. 48 REV 1 11-18-82

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WASHINGTON, D. C. 20431

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OF THESE GUARANTEES.

SINCERELY,

DE LAROSIERE

INTERFUND

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C TELEX NO.: CABLE ADDRESS:

D DRAFTED BY NAME (TYPE): ~~HB~~Junz/DRipley/vrb EXT.: 72967 DEPT.: EUR DATE: 3/16/83

E AUTHORIZED BY NAME (TYPE): J. de Larosiere AUTHORIZED BY NAME (TYPE): (**)

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202.214 M

LIST OF 13

Mr. Herbert Salcher
Ministry of Finance
Vienna, Austria
847111688

Mr. Willy de Clercq
Ministry of Finance
Brussels, Belgium
846 26701

Mr. Marc Lalonde
Department of Finance
Ottawa, Canada
389533336 FJWTB OTT

Mr. Henning Christophersen
Ministry of Finance
Copenhagen, Denmark
855 16140

Mr. Jacques Delors
Ministry of Economy and Finance
Paris, France
842 220962

Mr. Gerhard Stoltenberg
Ministry of Finance
Bonn, Federal Republic of Germany
841 886645

Mr. Giovanni Goria
Ministry of the Treasury
Rome, Italy
84361149

Mr. N. Takeshita
Ministry of Finance
Tokyo, Japan
781 24980

Mr. H.O. Ruding
Ministry of Finance
The Hague, The Netherlands
84433141

Mr. Kjell-Olof Feldt
Ministry of Economic Affairs
Stockholm, Sweden
854 11741

LIST OF 13 (page two)

Mr. Willy Ritschard
Administration Federale des Finances
Berne, Switzerland

33330 HELV CH

Mr. Ahti Pekkala
Ministry of Finance.
Helsinki, Finland

857 123241 FinMIN SF

Mr. Rolf Presthus
Ministry of Finance
Oslo, Norway

85672095

CC: LAW
CED
HBS

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CABLE
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531462

RCV: @1IM/2.03372 LINE: 2

1147 EST
440040 FUND UI

11868 NARBAN YU 16.3.1983 NR 7792 H17.35

INTERFUND WASHINGTONDC

FOR MRS.JUNZ, EUROPEAN DEPARTMENT.
~~THANK YOU FOR~~ YOUR CBLE OF MARCH 11 TO WHICH I AM REPLYING NOW BECAUSE I WAS WEVERAL DAYS OFF DUE TO ILLINESS. MISUNDERSTANDING REGARDING NDA FIGURES AROSE BECAUSE IN MAY CABLE OF MARCH 10 I REFERRED BY MISTAKE TO FIGURES IN THE SUPPLEMENT INSTEAD OF FIGURES FROM OUR CBLE OF MARCH 8, CALCULATED BY MR.PETROVIC, ANYHOW, YOUR REVISED FIGURES ARE ACCEPTABLE.
REGARDS,HOFMANN

NARODNABANKA JUGOSLAVIJE BEOGRAD

440040 FUND UI

T

REPLY VIA ITT

?
TIME: 11:48 03/16/83 ???
CONNECT TIME : 112 SECONDS

Office Memorandum

Cc: M.D. J... CED

March 16, 1983

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

From: The Acting Secretary

Subject: Yugoslavia - Stand-by Arrangement - Review

At EBM/83/47 (3/11/83) the Executive Board approved the decisions set forth in EBS/83/46 (2/24/83) and Correction 1 (3/10/83).

Office Memorandum

TO : The Managing Director

DATE: March 16, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

Thank you
JL
March 16, 83

You raised a query on the memorandum on Yugoslavia that I sent you on March 14. As I understand it, the United Kingdom will receive a copy only for information because they have already agreed to rollover virtually all of their guarantees, i.e., they are indeed one of the countries mentioned on page 2. The United States is, as you guessed, the other country referred to and we therefore thought it sufficient to send them a copy only for information. I am told by the U.S. Office that once the telex has been sent, the Secretary of State will be sending follow-up messages to the governments concerned. An information copy is being sent to the Swiss Chairman of the Intergovernmental Group as a courtesy.

The sentence that you queried on page 2 was itself an attempt to clarify a sentence drafted by the U.S. Treasury. I would now suggest, in answer to your query, that we substitute:

> "It is of course desirable that the amounts involved in such rollovers should be regarded as additions to amounts included in the Berne package."

cc: The Deputy Managing Director
Mrs. Junz
Ms. Ripley
Mr. Carter

(original with LAW)

The Managing Director March 16, 1983

Brian Rose

Yugoslavia

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> "It is of course desirable that the amounts involved in such rollovers should be regarded as additions to amounts included in the Berne package."

cc: The Deputy Managing Director
Mrs. Junz
Ms. Ripley
Mr. Carter

DRAFT
March 14, 1983

Dear Mr. Minister,

The efforts to arrange an international financial package in support of the adjustment program of Yugoslavia are well under way. The economic cooperation credits to be provided by Western governments were agreed nearly two months ago. The short-term bridging credit by the BIS was decided upon on March 7. On March 11 the Executive Board of the International Monetary Fund took the necessary decisions to put in place the third year of the Fund's stand-by arrangement with Yugoslavia. The remaining element of the overall financial package still being negotiated is that to be provided by the commercial banks. This element is an integral part of the overall program and necessary to make the entire package viable. The Executive Board has therefore decided to make the purchase of Fund resources after May 14 contingent upon sufficient progress having been made in putting the commercial bank participation in place.

The recent communication from the banks' International Coordinating Committee (ICC), which has allowed me to proceed with putting our program before the Executive Board, outlines the parameters of the bank package:

1. They will maintain their short-term exposure for two years;

2. they will refinance all medium term maturities falling due in 1983;

3. they will provide the financial resources necessary to clear up arrears currently estimated at US$400 million; and

4. they will provide US$600 million in new medium-term loans.

In order to make this package fully effective the banks need a commitment by governments to rollover or renew--depending upon individual institutional arrangements--their guarantees of medium term Yugoslav debt to banks falling due in 1983. It is clear that to have the maximum impact, such rollovers should, where possible, be additional to the undertakings of the Berne package.

Although it is my understanding that banks are in the process of requesting their governments to rollover government guarantees on Yugoslav debt coming due in 1983, I do not know what decisions have been taken. I know that one government is rolling over virtually all of its guarantees as part of the Berne package. Another major participant in the Berne effort has indicated its willingness to do so in addition to the Berne undertakings, as long as all other governments are fully prepared to do so as well.

U.K.

U.S.

I believe that it is critical that the financing effort be brought to a successful conclusion as rapidly as possible. Accordingly, I ask that you do everything feasible to deal with this particular issue. I would appreciate it if you could keep me informed of the progress being made in securing the rollover or renewal of these guarantees.

Sincerely,

deLarosiere

Office Memorandum

MAR 14 1983

TO : The Managing Director

DATE: March 14, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

I feel that the 1st § of p. 2 needs some clarification JR March 15 '83

I understood from Mr. Whittome before he left that you wished to send to a number of governments an appeal for their cooperation in securing a renewal of government guarantees of medium-term Yugoslav debt to banks falling due in 1983. I attach the draft of a letter, which would be telexed to Ministers of Finance in 13 countries (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Sweden, and Switzerland); we would also propose to send copies of the letter, for their information, to the United Kingdom, the United States and also to the Swiss Chairman of the Intergovernmental Group which met in Berne in January.

why for information only? [illegible] and on p. 2?

Att.

cc: The Deputy Managing Director
Mrs. Junz (o/r)
Ms. Ripley
Mr. Carter

DRAFT
March 14, 1983

Dear Mr. Minister,

The efforts to arrange an international financial package in support of the adjustment program of Yugoslavia are well under way. The economic cooperation credits to be provided by Western governments were agreed nearly two months ago. The short-term bridging credit by the BIS was decided upon on March 7. On March 11 the Executive Board of the International Monetary Fund took the necessary decisions to put in place the third year of the Fund's stand-by arrangement with Yugoslavia. The remaining element of the overall financial package still being negotiated is that to be provided by the commercial banks. This element is an integral part of the overall program and necessary to make the entire package viable. The Executive Board has therefore decided to make the purchase of Fund resources after May 14 contingent upon sufficient progress having been made in putting the commercial bank participation in place.

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I believe that it is critical that the financing effort be brought to a successful conclusion as rapidly as possible. Accordingly, I ask that you do everything feasible to deal with this particular issue. I would appreciate it if you could keep me informed of the progress being made in securing the rollover or renewal of these guarantees.

Sincerely,

deLarosiere

~~The Deputy Managing Director~~

Office Memorandum

TO : The Managing Director

DATE: March 14, 1983

FROM : Brian Rose BR

SUBJECT : Yugoslavia

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Att.

cc: The Deputy Managing Director
    Mrs. Junz (o/r)
    Ms. Ripley
    Mr. Carter

DRAFT
March 14, 1983

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3. they will provide the financial resources necessary to clear up arrears currently estimated at US$400 million; and

4. they will provide US$600 million in new medium-term loans.

In order to make this package fully effective the banks need a commitment by governments to rollover or renew--depending upon individual institutional arrangements--their guarantees of medium term Yugoslav debt to banks falling due in 1983. It is clear that to have the maximum impact, such rollovers should, where possible, be additional to the undertakings of the Berne package.

Although it is my understanding that banks are in the process of requesting their governments to rollover government guarantees on Yugoslav debt coming due in 1983, I do not know what decisions have been taken. I know that one government is rolling over virtually all of its guarantees as part of the Berne package. Another major participant in the Berne effort has indicated its willingness to do so in addition to the Berne undertakings, as long as all other governments are fully prepared to do so as well.

I believe that it is critical that the financing effort be brought to a successful conclusion as rapidly as possible. Accordingly, I ask that you do everything feasible to deal with this particular issue. I would appreciate it if you could keep me informed of the progress being made in securing the rollover or renewal of these guarantees.

Sincerely,

deLarosiere

original draft supplied by U.S. Treasury

Jung

Dear Mr. Minister:

Nearly two months have elapsed since Western Governments reached agreement in Bern on a $1.3 billion economic assistance package for Yugoslavia. This assistance, which is comprised primarily of government export credits/guarantees ($1.0 billion), and an untied financial credit component ($300 million), can make a significant contribution to improving the Yugoslav balance of payments situation in 1983.

While the government Memorandum of Understanding is in place, a financial package by the private banks is still being negotiated. This element is necessary for me to report to the Executive Board that a viable financing program is in place. In recent communications with the IMF, the International Bank Coordinating Committee (ICC) indicated the parameters of its package: 1) maintaining short-term exposure for two years, 2) refinancing $1.4 billion of arrears and medium-term debt service falling due in 1983, 3) providing $600 million in new medium-term loans and 4) a commitment by governments to roll over or refinance guarantees on medium-term bank debt falling due in 1983. (To have the maximum impact, such roll over should be additional to those elements already in the Bern package.)

At the present juncture the question of shares of the $600 million among banks is still open. Also, it is my understanding that banks are in the process of requesting their governments to roll over guarantees, and there is little indication at this time that governments are prepared to take this step. (One government is rolling over virtually all of its guarantees as part of the Bern package; another has indicated its willingness to do so as long as all others follow suit and their relative share of the package does not increase.)

I believe that it is critical that this effort be brought to a successful conclusion as rapidly as possible. Accordingly, I ask that you do everything possible to resolve the two outstanding issues cited above.

Sincerely,

de Larosiere

or

Bill Dale

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WASHINGTON, D. C. 20431

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GOVERNOR, BANQUE NATIONALE DE YUGOSLAVIE
SIEGE CENTRALE, P.O. BOX 1010
YU-11001 BELGRADE
YUGOSLAVIA

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EXECUTIVE BOARD TOOK FOLLOWING DECISIONS MARCH 11:

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MR. BOLAK
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MR. N. CARTER

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QUOTE. <u>1982 ARTICLE IV CONSULTATION</u>

1. THE FUND TAKES THIS DECISION IN RELATION TO YUGOSLAVIA'S EXCHANGE MEASURES SUBJECT TO ARTICLE VIII, SECTIONS 2 AND 3, AND IN CONCLUDING THE 1982 ARTICLE XIV CONSULTATION WITH YUGOSLAVIA IN THE LIGHT OF THE 1982 ARTICLE IV CONSULTATION WITH YUGOSLAVIA CONDUCTED UNDER DECISION NO. 5392-(77/63) ADOPTED APRIL 29, 1977 (SURVEILLANCE OVER EXCHANGE RATE POLICIES).

2. YUGOSLAVIA CONTINUES TO MAINTAIN THE RESTRICTION ON THE AVAILABIITY OF FOREIGN EXCHANGE FOR TRAVEL AS DESCRIBED IN EBS/83/46 (2/24/83). IN THE CIRCUMSTANCES OF YUGOSLAVIA, THE FUND GRANTS APPROVAL FOR THE RETENTION OF THIS EXCHANGE RESTRICTION UNTIL THE COMPLETION OF THE NEXT ARTICLE IV CONSULTATION OR FEBRUARY 28, 1984, WHICHEVER IS EARLIER. THE FUND NOTES THE EXISTENCE OF EXTERNAL PAYMENTS ARREARS AND THE INTENTION OF THE AUTHORITIES TO ELIMINATE THEM AT AN EARLY DATE. IN THE CIRCUMSTANCES, THE FUND GRANTS APPROVAL OF MAINTENANCE

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OF EXTERNAL PAYMENTS ARREARS UNTIL AUGUST 14, 1983.

STAND-BY ARRANGEMENT - REVIEW

1. THE GOVERNMENT OF YUGOSLAVIA HAS CONSULTED IN ACCORDANCE WITH PARAGRAPH 3(b) OF THE STAND-BY ARRANGEMENT FOR YUGOSLAVIA (EBS/81/5, SUPPLEMENT 2 (2/2/81) IN ORDER TO ESTABLISH PERFORMANCE CRITERIA SUBJECT TO WHICH PURCHASES MAY BE MADE BY YUGOSLAVIA DURING THE THIRD YEAR OF THE STAND-BY ARRANGEMENT.

2. THE LETTER FROM THE GOVERNOR OF THE NATIONAL BANK OF YUGOSLAVIA AND THE FEDERAL SECRETARY FOR FINANCE OF YUGOSLAVIA, DATED DECEMBER 30, 1982, AND THE SUPPLEMENT TO THAT LETTER DATED FEBRUARY 18, 1983, SETTING FORTH THE POLICIES AND MEASURES WHICH THE AUTHORITIES OF YUGOSLAVIA WILL PURSUE FOR THE THIRD YEAR OF THE STAND-BY ARRANGEMENT, SHALL BE ANNEXED TO THE STAND-BY ARRANGEMENT FOR YUGOSLAVIA, AND THE LETTER OF JANUARY 15, 1981, ANNEXED TO THE STAND-BY ARRANGEMENT, AS SUPPLEMENTED BY THE LETTER OF JANUARY 25, 1982 SHALL BE READ AS SUPPLEMENTED BY THE

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LETTER OF DECEMBER 30, 1982 AND THE SUPPLEMENT DATED FEBRUARY 18, 1983.

3. YUGOSLAVIA WILL NOT MAKE ANY PURCHASE UNDER THE STAND-BY ARRANGEMENT THAT WOULD INCREASE THE FUND'S HOLDINGS OF ITS CURRENCY IN THE CREDIT TRANCHES TO MORE THAN 25 PER CENT OF QUOTA OR INCREASE THE FUND'S HOLDINGS OF ITS CURRENCY RESULTING FROM PURCHASES OF SUPPLEMENTARY FINANCING TO MORE THAN 12.5 PER CENT OF QUOTA

a. DURING ANY PERIOD IN WHICH:

(i) THE INTENTION AS REGARDS THE EXCHANGE RATE EXPRESSED IN THE LAST SENTENCE OF PARAGRAPH 3 OF THE ANNEXED LETTER AND IN SECTION II OF THE SUPPLEMENT DATED FEBRUARY 18, 1983, IS NOT BEING CARRIED OUT;

(ii) THE INTENTIONS AS REGARDS INTEREST RATES EXPRESSED IN PARAGRAPH 8, SENTENCES 1 THROUGH 4, AND PARAGRAPH 9, SENTENCES 2 THROUGH 4, OF THE ANNEXED LETTER HAVE NOT BEEN CARRIED OUT; OR

b. DURING ANY PERIOD IN WHICH:

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WASHINGTON, D. C. 20431

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(i) THE DATA FOR THE PRECEDING PERIOD INDICATES THAT THE LIMIT ON OUTSTANDING NET DOMESTIC ASSETS OF THE BANKING SYSTEM DESCRIBED IN SENTENCE 4 OF PARAGRAPH 6 OF THE ANNEXED LETTER AND AS SPECIFIED IN THE ATTACHED MEMORANDUM OF UNDERSTANDING, ANNEX 2, AS AMENDED BY SECTION I OF THE SUPPLEMENT, HAS BEEN EXCEEDED; OR

(ii) THERE HAS BEEN AN INCREASE IN CREDIT BY THE NATIONAL BANK OF YUGOSLAVIA TO THE BUDGET OF THE FEDERATION, AS REFERRED TO IN SENTENCE 8 OF PARAGRAPH 6 OF THE ANNEXED LETTER; OR

(iii) THE LIMIT ON FOREIGN DEBT MENTIONED IN PARAGRAPH 10, SENTENCES 5 THROUGH 7, OF THE ANNEXED LETTER AND DESCRIBED IN THE ATTACHED MEMORANDUM OF UNDERSTANDING, ANNEX 4, IS NOT BEING OBSERVED;

(iv) THE INTENTIONS RELATING TO PUBLIC SECTOR EXPENDITURES STATED IN SENTENCES 3, 4, AND 5 IN THE ~~FIRST PARAGRAPH OF SECTION III OF THE SUPPLEMENT~~

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ARE NOT BEING OBSERVED; OR

c. AFTER MAY 14, 1983, IF THE PROGRESS TOWARD THE PROVISION OF EXTERNAL BANK FINANCING FOR YUGOSLAVIA, AS REGARDS AMOUNT AND TIMING, IS NOT SUFFICIENT; OR

d. AFTER AUGUST 14, 1983, IF SUITABLE PERFORMANCE CRITERIA HAVE NOT BEEN ESTABLISHED IN CONSULTATION WITH THE FUND AS CONTEMPLATED IN PARAGRAPH 12 OF THE ANNEXED LETTER OR WHILE SUCH CRITERIA, HAVING BEEN ESTABLISHED, ARE NOT BEING OBSERVED.

4. PURCHASES UNDER THIS STAND-BY ARRANGEMENT SHALL NOT WITHOUT THE CONSENT OF THE FUND, EXCEED THE EQUIVALENT OF SDR 1,283 MILLION UNTIL MAY 15, 1983, THE EQUIVALENT OF SDR 1,433 MILLION UNTIL AUGUST 15, 1983, AND THE EQUIVALENT OF SDR 1,533 MILLION UNTIL NOVEMBER 15, 1983.

5. THE FUND WAIVES THE APPLICATION OF THE PERFORMANCE CRITERION IN THE FIRST SUBPARAGRAPH OF PARAGRAPH 3 OF DECISION NO. 7053-(82/23) (REVIEW AND CONSULTATION

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UNDER STAND-BY ARRANGEMENT, ADOPTED FEBRUARY 22, 1982) AND WAIVES UNTIL AUGUST 14, 1983 THE APPLICATION OF THE PERFORMANCE CRITERION IN PARAGRAPH 3(c)(i) OF THE STAND-BY ARRANGEMENT IN EBS/81/5, SUPPLEMENT 2 (FEBRUARY 2, 1981) IN RESPECT OF THE ARREARS EXISTING DURING 1983.

6. IN PARAGRAPH 1 OF THE STAND-BY ARRANGEMENT FOR YUGOSLAVIA (EBS/81/5, SUP. 2, 2/2/81), THE PHRASE "FOR A PERIOD OF THREE YEARS FROM JANUARY 30, 1981" SHALL BE REPLACED BY "FOR THE PERIOD FROM JANUARY 30, 1981 TO DECEMBER 31, 1983."

UNQUOTE

LANG ACTING SECRETARY INTERFUND

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): KFriedman:gg EXT.: 72866 DEPT.: SEC DATE: 3/14/83

AUTHORIZED BY NAME (TYPE): [illegible]

AUTHORIZED BY NAME (TYPE): Joseph W. Lang, Jr. (**)

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Rcv: @1IM/1.02838 Line: 1

1144 03/11
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0153 83-03-11 16:42

INTERNATIONAL MONETARY FUND
WASHINGTON D.C.
ATTN: MRS. HELEN JUNZ

THANK YOU VERY MUCH FOR YOUR CABLE REGARDING THE MEETING WITH THE BANKS. I USED YOUR ARGUMENTS IN REQUESTING U.S. DOLLARS 3/4 BILLION IN NEW MONEY. I ACCEPTED TO REPLY OFFICIALLY TO THE OFFER BY MARCH 18, AND NOTED THE INSISTENCE OF THE ICC TO FINALIZE THE DISCUSSION ON THEIR OFFER BY MARCH 24.

WITH BEST REGARDS

G.POPOVIC
ASSISTANT FEDERAL SECRETARY OF FINANCE

INTERFUND WSH

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MRS. HOFMANN

NATIONAL BANK OF YUGOSLAVIA

BELGRADE, YUGOSLAVIA

START TEXT HERE

WE DO NOT UNDERSTAND YOUR PROBLEM REGARDING OUR TELEX OF MARCH 9, 1983. - - - - - - - - - BECAUSE STARTING POINT FOR OUTSTANDING STOCK OF NET DOMESTIC ASSETS ON DECEMBER 31, 1982 WAS ABOUT DINAR 5 BILLION HIGHER THAN ORIGINALLY ESTIMATED, WE HAVE RECALCULATED, ON BASIS OF THE AGREED PERCENTAGE CHANGES, THE NEW AVERAGE STOCK OF NET DOMESTIC ASSETS ALLOWABLE FOR JANUARY 31, FEBRUARY 28 AND MARCH 31, 1983 AND APRIL 30, MAY 31, AND JUNE 30, 1983. THESE NUMBERS BEING DIN 2,758.2 BILLION AND DIN 2,823.8 BILLION, RESPECTIVELY. THESE NUMBERS ARE HIGHER THAN THE ONES IN THE ORIGINAL PARAGRAPH I OF THE SUPPLEMENT AS PREVIOUSLY AGREED. WE HAVE RETAINED THESE NUMBERS FOR THE BOARD DISCUSSION. HOWEVER, IF THE UPWARD REVISION FOR THE DECEMBER STOCK OF NDA IS AN ERROR, WE WILL REVERT TO THE EARLIER NUMBERS.

REGARDS

JUNZ

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DRAFTED BY NAME (TYPE): HBJunz:cn — EXT.: 72967 — DEPT.: EUR — DATE: 3/11/83

AUTHORIZED BY NAME (TYPE): HELEN B. JUNZ — AUTHORIZED BY NAME (TYPE):

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2. Use OCR-B210 sphere and set typewriter for DOUBLE SPACING - No other markings acceptable.
3. Use 10 pitch type (Pica)

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WASHINGTON, D. C. 20431

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MR. ZVONE DRAGAN
VICE PRESIDENT
FEDERAL EXECUTIVE COUNCIL
BELGRADE, YUGOSLAVIA

START TEXT HERE

DISCUSSION OF THIRD YEAR OF STAND-BY ARRANGEMENT FOR YUGOSLAVIA CONCLUDED SUCCESSFULLY.

WITH BEST WISHES AND REGARDS

HELEN B. JUNZ

INTERFUND

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REPEAT TO: GOVERNOR R. MAKIC, NATIONAL BANK OF YUGOSLAVIA

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cc: Cty. filing

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Office Memorandum

March 10, 1983

MEMORANDUM FOR FILES

Subject: Mr. Mentré's Visit to the BIS

When phoning from the BIS today Mr. Mentré rapidly summarized their views on some of our joint member countries. They were as follows:

1. Yugoslavia: the BIS were growing increasingly disenchanted and they were beginning to suspect that the position could lapse into one that had many of the characteristics of Poland.

2. In contrast, they were favorably impressed by the marked improvement in Romania. Mentré warned them not to get over-enthusiastic.

3. They were less than completely confident about the Hungarian position though, according to their information, the $200 million being arranged by the Deutsche Bank is now firm and in addition Fekete has been able to borrow $100 million bilaterally from a number of banks. Hopefully this may be enough for 1983.

4. They had growing doubts about the Portuguese situation which they saw worsening further.

Lastly, they made the general point that they thought that the widespread unease in markets (incidentally they thought the figure used in the MD's speech at Neuchâtel of $20 billion increased lending to the LDCs was unrealistic) was now spreading to cover what might be termed the semi-industrial countries in Europe. They thought that the first one that would be hard hit would be Portugal, with Spain being the candidate next in line.

L. A. Whittome

cc: Mr. Hole
Ms. Ripley
Mrs. Ter-Minassian

Mr. Whittome

Office Memorandum

March 10, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia: Conversation with Fulvio Dobrich

Mr. Dobrich called from London saying that the meetings had gone fairly well. They are now in the process of drafting the basic terms and conditions of the offer to Yugoslavia. This draft will also provide the basis for draft documentation for the actual loan agreements. The main outstanding question is who the obligor would be, the banks wishing it to be the National Bank of Yugoslavia jointly with the Socialist Federal Republic of Yugoslavia. The Yugoslavs are to provide a written response by March 18 to New York, some backing and forthing to occur for the next seven days, and final acceptance by the 25th. The terms for the medium term loans are 1 3/4 per cent over prime or 1 7/8 per cent over LIBOR; the restructuring fee is 1 1/4 per cent. On the short term rollovers, the terms are 1 1/4 per cent over prime or 1 3/8 per cent over LIBOR with a commitment fee for the undrawn portion. There is no expectation that any portion will be undrawn.

The maturities are to be five years with two years grace. However, the banks would offer six years with three years grace if governments moved to the same maturity. The amounts to be offered have not been put on the table as yet, however, we have been assured that all our communications have been shared with the committee so that there can be no doubt regarding the new bank financing we require as a minimum. Peat Marwick and Mitchell have begun their work which consists of identifying the exposures as of November 30, 1982 and to relate them to the maturities of 1983. So far 623 creditor banks have been identified. However, there could be some double counting since a number of major banks have already identified some of their subsidiaries in addition to themselves on the list.

The squabble with the French bank continues. They are, according to Mr. Dobrich, adamant about excluding the US$150 million loan that they relate to the aftermath of the Venice Summit. This is a totally off-the-wall argument. Nevertheless, Dobrich expects they will stick to it until and unless they are told by their own government to change their view. The French Government itself had made a similar argument on its own behalf--slightly less off-the-wall--in connection with the Berne meetings and eventually gave in.

Helen B. Junz

cc: Mr. Whittome ✓
Ms. Ripley
Mr. Lewis

LAW

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FOR MRS. HELEN JUNZ, EUROPEAN DEPARTMENT.
REFERENCE YOUR TELEX OF MARCH 9,1983.
A/ AS TO NDA LIMITS WE WOULD PREFER TO KEEP THE FIGURES IN THE PARA I OF THE SUPPLEMENT AS PREVIOUSLY AGREED.

B/ CURRENT ACCOUNT DATA BY MONTHS, COMPARABLE WITH THE FIRST TWO MONTHS OF 1982 NOT AVAILABLE AT PRESENT EXCEPT FOR EXPORTS AND IMPORTS.

	JANUARY 1983	FEBRUARY 1983
EXPORTS	557	821
CONVERT.	337	520
IMPORTS	781	898
CONVERT.	562	592

BEST REGARADS, HOFMANN,

NARODNABANKA JUGOSLAVIJE BEOGRAD
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REPLY VIA ITT

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TIME: 13:23 03/10/83 EST
CONNECT TIME : 149 SECONDS

The Managing Director

cc: Mr. Jung
CED.

MAR 9 1983

Office Memorandum

TO : The Managing Director
The Deputy Managing Director

DATE: March 9, 1983

FROM : L. A. Whittome

SUBJECT : Yugoslavia: Supplementary Material to Staff Report and Summing Up

I am attaching a proposed supplement to the Yugoslav Staff Report. It details the additional information that has become available on the financing package for Yugoslavia. As you know from the attached cables between yourselves and the Chairman of the International Coordinating Committee of the commercial banks for Yugoslavia, the Committee has agreed to work to a disbursement date on or before May 27, 1983. We have also made it abundantly clear that the minimal new financing, regardless of other additional outstanding debt maturities to the banks that could possibly be discovered by Peat Marwick and Mitchell, is US$600 million. At this time, it looks as if this amount is realizable. The major problem seems to be not between the banks and the Yugoslavs, but among banks regarding the key for apportioning the new financial resources. The French banks are insisting that the credits made available as a result of the Venice Summit should be excluded from the exposure base that is the key variable, since they argue that France was the only country to act on that commitment. To ensure that the squabbling among the banks does not result in a slippage of the disbursement date or of the quantity of new money, we are proposing to add a paragraph to the decision to be taken which makes the Fund resources available for purchases after May 14 contingent upon the satisfactory progress of the banking financing package. May we have your approval for adding this paragraph, please.

I am also attaching a proposed summing up.

Attachments

cc: Mr. Carter

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

YUGOSLAVIA

Staff Report for the 1982 Article IV Consultation
and Review under Stand-By Arrangement--
Supplementary Information

Prepared by the European Department

Approved by L. A. Whittome and Subimal Mookerjee

March 9, 1983

Since the staff report for the 1982 Article IV consultation and review under stand-by arrangement for Yugoslavia was issued, more detailed information on the proposed financing package has become available. The paper is on the agenda for discussion on March 11, 1983.

The external financing flows on the basis of the proposed program and the associated financing package are set out in Tables 1 and 2. These tables present somewhat more precisely the material shown in Table 10 of the staff report (EBS/83/46, 2/24/83). Nevertheless, it is in the nature of such projections that these data remain relatively tenuous.

On the basis of the latest data available, the staff still postulates a current account deficit of US$1/2 billion vis-à-vis the convertible currency area for 1983. Financing needs other than to cover the current account deficit include an estimated US$2.6 billion of medium- and long-term maturities falling due in 1983 and short-term maturities of US$1.8 billion. To cover other obligations, an estimated US$0.4 billion will be needed to eliminate the buildup in arrears in the first half of 1983 and about US$0.2 billion during the entire year for the extension of export credits to foreign importers.

IMF OFFICIAL MESSAGE cc: CED

WASHINGTON, D. C. 20431

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MRS. HOFMANN
NATIONAL BANK OF YUGOSLAVIA
BELGRADE YUGOSLAVIA

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IN ANSWER TO YOUR CABLE OF MARCH 8, 1983 AND AFTER TALKING TO MR. PETROVIC REGARDING YOUR PROPOSAL TO AMEND PARAGRAPH I OF THE SUPPLEMENT TO YOUR LETTER OF INTENT OF DECEMBER 30, 1982, WE HAVE CHANGED THAT PARAGRAPH TO READ AS FOLLOWS:

"I. TECHNICAL AMENDMENT TO PAGE 4, PARAGRAPH 6

BECAUSE DOMESTIC CREDIT AT THE END OF DECEMBER 1982 HAD EXCEEDED THE CREDIT CEILING BY DIN 9.2 BILLION AND BECAUSE MONETARY EXPANSION GENERALLY APPEARS GREATER THAN EXPECTED, THE CEILINGS FOR THE STOCK OF NET DOMESTIC ASSETS FOR THE SUBSEQUENT SIX MONTH PERIOD ARE ADJUSTED DOWNWARD BY DIN 9.2 BILLION. ACCORDINGLY, THE LIMIT FOR JUNE 30 IS DIN 2,845.7 BILLION. THE OUTSTANDING STOCK OF NET DOMESTIC ASSETS ON DECEMBER 31, 1982 WAS DIN 2,714.4 BILLION AND THE AVERAGE STOCK OF NET DOMESTIC ASSETS FOR JANUARY 31ST, FEBRUARY 28TH, AND MARCH 31ST, 1983 WILL NOT EXCEED DIN 2,758.2 BILLION AND THAT FOR APRIL 30TH MAY 31ST, AND JUNE 30TH, 1983 WILL NOT EXCEED DIN 2,823.8

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MRS. HOFMAN

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BILLION."

I HOPE THIS IS ACCEPTABLE.

ON THE DATA YOU MADE AVAILABLE TO US ON CURRENT ACCOUNT DEFICIT, EXPORTS, IMPORTS, INVISIBLES, WORKERS REMITTANCES BROKEN DOWN BY CONVERTIBLE AND NONCONVERTIBLE CURRENCIES. IT WOULD BE MORE HELPFUL IF YOU COULD GIVE US JANUARY AND FEBRUARY 1983 SEPARATELY AND GIVE US THE COMPARABLE DATA FOR 1982.

WITH BEST REGARDS

HELEN JUNZ

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MR. FULVIO DOBRICH

C/O ROBINSON

MANUFACTURERS HANOVER TRUST CO.

LONDON

PLEASE NOTE CORRECTION IN SECOND PARAGRAPH, LAST SENTENCE, OF CABLE SENT MARCH 7, 1983: "1982" SHOULD READ "1983". THE FINAL SENTENCE OF THE SECOND PARAGRAPH SHOULD THEREFORE READ AS FOLLOWS:

"IF, HOWEVER, BANK DEBT MATURING IN 1983 IS U.S. DOLLAR 1.4 BILLION, AND ARREARS STILL ARE U.S. DOLLAR 0.4 BILLION, THEN TOTAL DUE TO BANKS IN 1983 WOULD BE U.S. DOLLAR 1.8 BILLION AND NEW BANK FINANCING OF U.S. DOLLAR 600 MILLION WOULD BE IN ADDITION TO THAT AMOUNT."

WITH BEST REGARDS

HELEN JUNZ

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CABLE ADDRESS

HBJUNZ:cn

EXT 72967 DEPT EUR DATE 3/8/83

HELEN B. JUNZ

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Mr. Whittome

cc: CED

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MR. FULVIO DOBRICH
C/O ROBINSON
MANUFACTURERS HANOVER TRUST CO.
LONDON

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AS YOU KNOW, THE BIS HAS APPROVED THE US DOLLARS 300 MILLION TRANCHE OF THE BRIDGING LOAN TO YUGOSLAVIA WITH THE US DOLLARS 200 MILLION TRANCHE PENDING UNTIL THE NEGATIVE GOLD PLEDGE WAIVERS HAVE BEEN OBTAINED. PLEASE WORK WITH YOUR FRENCH COLLEAGUES TO OBTAIN SUCH WAIVERS.

WE HAVE, ON THE BASIS OF THE INFORMATION YOU PROVIDED, CIRCULARIZED GOVERNMENTS PARTICIPATING IN THE OFFICIAL COOPERATIVE ACTION FOR YUGOSLAVIA, THROUGH THE SWISS CHAIR, REGARDING ROLL OVER OF MATURITIES OF GOVERNMENT GUARANTEES. TO OUR SURPRISE, WE FIND THAT FROM THE REPLIES RECEIVED SO FAR, NO PARTICIPATING COUNTRY HAS BEEN APPROACHED BY ITS BANKS REGARDING SUCH ROLL-OVERS OF MATURITIES. PLEASE ASCERTAIN FROM YOUR COMMITTEE MEMBERS WHO THEY APPROACHED REGARDING THIS MATTER AND WHEN. THE MOMENTUM WE THOUGHT WE WERE ENGINEERING IN THIS RESPECT HAS BEEN LOST AND CONCEIVABLY OUR ACTIONS CAN HAVE BEEN COUNTERPRODUCTIVE. I HOPE YOU HAVE RECEIVED THE CABLE FROM THE ACTING MANAGING DIRECTOR BY NOW. IN ORDER TO AVOID ANY FURTHER

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TELEX NO. 898 371

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MR. FULVIO DOBRICH
C/O ROBINSON
MANUFACTURERS HANOVER TRUST CO.
LONDON, U.K.
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CONFUSION, I WANT TO EXPLAIN AGAIN WHAT WE MEANT IN ZURICH AND WHAT THE AMD MEANT IN HIS CABLE BY U.S. DOLLAR 1.4 BILLION OF DEBT DUE TO BANKS IN 1983. OUR BEST ESTIMATE IN JANUARY WAS U.S. DOLLAR 1 BILLION OF DEBT MATURING FROM JANUARY 17 ON AND U.S. DOLLAR 0.4 BILLION CLEARING UP OF ARREARS TOTALING U.S. DOLLARS 1.4 BILLION DUE FOR 1983 AS A WHOLE. IF, HOWEVER, BANK DEBT MATURING IN 1982 IS U.S. DOLLAR 1.4 BILLION, AND ARREARS STILL ARE U.S. DOLLAR 0.4 BILLION, THEN TOTAL DUE TO BANKS IN 1983 WOULD BE U.S. DOLLAR 1.8 BILLION AND NEW BANK FINANCING OF U.S. DOLLAR 600 MILLION WOULD BE IN ADDITION TO THAT AMOUNT.

3

I TRUST YOU ARE SHARING OUR COMMUNICATIONS OF THE PAST SEVERAL DAYS WITH YOUR COMMITTEE MEMBERS. UNLESS WE HEAR FROM YOU OF ANY PROBLEMS REGARDING OUR UNDERSTANDING OF WHAT IS MEANT BY "NEW BANK-FINANCING AND THE MINIMAL AMOUNT," I.E., SIX HUNDRED MILLION DOLLARS REQUIRED, WE WILL PROCEED WITH OUR BOARD DISCUSSION AS PLANNED ON

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C/O ROBINSON
MANUFACTURERS HANOVER TRUST CO.
LONDON, U.K.
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MARCH 11.
BEST REGARDS AND BEST WISHES
HELEN JUNZ
INTERFUND

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Mr. Whittome

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MR. GAVRA POPOVIC
EMBASSY OF YUGOSLAVIA
LONDON, ENGLAND

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REGARDING YOUR MEETING WITH THE COMMERCIAL BANKS THIS WEEK: THE NEW MONEY TO BE MADE AVAILABLE TO YUGOSLAVIA IN OUR OPINION NEEDS TO BE A MINIMUM OF SIX HUNDRED MILLION DOLLARS AND SHOULD BE IN THE RANGE OF US DOLLARS 3/4 BILLION. THE CURRENT ACCOUNT DEFICIT OF YUGOSLAVIA IN CONVERTIBLE CURRENCIES IN PROSPECT FOR 1983, AT US DOLLARS 1/2 BILLION, REPRESENTS AN IMPROVEMENT OF APPROXIMATELY US DOLLARS 1 BILLION OVER THE ESTIMATED 1982 OUTTURN. SUCH AN IMPROVEMENT REPRESENTS THE UPPER LIMIT OF YUGOSLAVIA'S POSSIBLE ADJUSTMENT EFFORT IN THE CURRENT WORLD ECONOMIC CLIMATE. FURTHERMORE, THE LOANS TO BE CONCLUDED MUST SUFFICE TO CARRY YUGOSLAVIA THROUGH THE SEASONALLY ADVERSE FIRST HALF OF 1984. THIS IMPLIES THAT RESERVE LEVELS MUST BE REBUILT SUFFICIENTLY, I.E., BY AT LEAST US DOLLARS 3/4 BILLION.

REGARDING YOUR QUESTION ABOUT NEGOTIATING LEEWAY: WE UNDERSTAND THAT BANKS, BECAUSE OF TIGHT TIME LIMITS, WILL PUT THEIR FINAL POSITIONS ON THE TABLE. THIS MEANS

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MR. GAVRA POPOVIC

EMBASSY OF YUGOSLAVIA

LONDON, ENGLAND

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THERE WOULD BE LITTLE LEEWAY. YOU MIGHT SEE WHETHER YOU CAN ACHIEVE A SIX-YEAR MATURITY WITH A THREE-YEAR GRACE PERIOD. WE CANNOT ADVISE REGARDING COSTS.

BEST REGARDS

HELEN JUNZ

INTERFUND

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CC: Mr. Jung
Ms. Rigby
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MR.N.CARTER

TO: INTERNATIONAL MONETARY FUND
WASHINGTON, D.C.

ATTN: MR. J. DE LAROSIERE

WE HAVE TODAY MAILED YOU THE FOLLOWING LETTER:

QUOTE:

QUOTE I WISH TO EXPRESS MY THANKS FOR THE KIND WORDS OF APPRECIATION CONTAINED IN YOUR TELEX DATED MARCH 2, 1983, ADDRESSED TO ME IN MY CAPACITY AS CHAIRMAN OF THE INTERNATIONAL COORDINATING COMMITTEE (ICC) FOR YUGOSLAVIA. I CAN CONFIRM TO YOU THAT ALL OF THE MEMBERS OF THE ICC SHARE YOUR CONCERN FOR THE NEED FOR TIMELY AND POSITIVE ACTIONS BY ALL PARTIES CONCERNED TO COMPLETE THE FINANCIAL PACKAGE FOR YUGOSLAVIA. WE UNDERTAKE, WITH THIS LETTER, TO CLARIFY OUR EARLIER LETTER SENT TO YOU ON FEBRUARY 28, WHICH WE BELIEVE MEETS THE MINIMUM UNDERSTANDING WHICH YOU REQUIRE FROM US BEFORE PROCEEDING WITH YOUR OWN BOARD MEETING.

AS YOU KNOW, EVEN AFTER AGREEMENT ON TERMS AND CONDITIONS HAS BEEN REACHED, NEGOTIATION OF LOAN DOCUMENTATION IS A RATHER LENGTHY AND ARDUOUS PROCESS, WHICH WE WILL NONETHELESS ENDEAVOR TO EXPEDITE. OF COURSE, THE SPEED WITH WHICH WE ARE ABLE TO CONCLUDE THIS DEPENDS UPON THE DISPOSITION OF THE YUGOSLAV GROUP FOR COORDINATION, WHO, WITHIN THEIR OWN CONTEXT, FIND THEMSELVES IN AN UNIQUE FINANCIAL SITUATION. THESE FACTORS NOTWITHSTANDING, THE ICC WILL WORK TO ASSURE THAT THE PROPOSED COMMERCIAL BANK FINANCIAL PACKAGE FOR YUGOSLAVIA IS READY FOR SIGNATURE AND INITIAL DISBURSEMENT ON, OR BEFORE MAY 27, 1983.

AS THE LACK OF PRECISE INFORMATION PREVENTS THE ICC FROM UNEQUIVOCALLY STATING EXACTLY WHAT THE NEEDS FOR NEW BANK FINANCING WILL BE, WE HAVE CONVINCED THE YUGOSLAVS, AFTER CONSIDERABLE DEBATE, TO RETAIN THE SERVICES OF PEAT, MARWICK AND MITCHELL TO RECONCILE THEIR 1983 MATURITY PROFILE. IN CONCURRENCE WITH YOUR OWN UNDERSTANDING OF THE MAIN ELEMENTS

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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MR. EBERT
CHAIRMAN OF INTERNATIONAL COORDINATING COMMITTEE FOR
BANK ASSISTANCE TO YUGOSLAVIA
MANUFACTURERS HANOVER
NEW YORK

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CC: EURO
MD
DMD
MR. N. CARTER

START TEXT HERE

DEAR MR. EBERT,

I MUCH APPRECIATE THE FACT THAT WE HAVE BEEN ABLE TO AGREE ON LANGUAGE SETTING OUT THE ICC'S COMMITMENTS TO WORK TOWARD ENSURING THAT WHAT WE CONSIDER THE MINIMAL ELEMENTS OF A FINANCING PACKAGE FOR YUGOSLAVIA WILL BE PUT IN PLACE. HOWEVER, SO THAT NO MISUNDERSTANDINGS ARISE BETWEEN US AND YOUR GROUP, I WOULD LIKE TO CLARIFY A NUMBER OF POINTS.

WE ARE PLEASED THAT YOU WILL WORK TO ENSURE THAT THE PROPOSED COMMERCIAL BANK FINANCIAL PACKAGE FOR YUGOSLAVIA IS READY FOR SIGNATURE AND INITIAL DISBURSEMENT ON OR BEFORE MAY 27, 1983. IN THAT RESPECT WE UNDERSTAND THAT YOU ANTICIPATE, INTER-ALIA, THAT ON OR PRIOR TO THE DATE OF DISBURSEMENT A NUMBER OF THE OTHER FINANCING ELEMENTS WILL BE IN PLACE. BUT I MUST WARN YOU NOW THAT THE FINAL ELEMENTS OF THE WORLD BANK STRUCTURAL ADJUSTMENT LOAN AS WELL AS SOME OTHER PARTS OF THE PACKAGE ARE UNLIKELY TO BE FULLY IN PLACE AT THAT TIME. THEREFORE, WE BELIEVE THE

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SEC 48 10-21-81

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WASHINGTON, D. C. 20431

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MR. EBERT

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WORD "ANTICIPATES"IN YOUR COMMUNICATION TO BE CORRECT AND WE UNDERSTAND THAT IF THIS ANTICIPATION IS NOT MET FULLY, YOUR PART OF THE PACKAGE WILL MOVE FORWARD AS PLANNED.

REGARDING THE AMOUNT OF WHAT WE HAVE COME TO CALL "NEW MONEY" TO BE MADE AVAILABLE TO YUGOSLAVIA, THE MANAGING DIRECTOR HAS ADVISED YOU THAT THE FIGURE OF SIX HUNDRED MILLION DOLLARS REPRESENTS IN HIS OPINION A BARE MINIMUM. THE CURRENT ACCOUNT DEFICIT OF YUGOSLAVIA IN CONVERTIBLE CURRENCIES IN PROSPECT FOR 1983 AT US DOLLARS HALF A BILLION, REPRESENTS AN IMPROVEMENT OF APPROXIMATELY US DOLLARS ONE BILLION OVER THE ESTIMATED 1982 OUTTURN. I HARDLY HAVE TO TELL YOU THAT IN TODAY'S WORLD ECONOMIC CLIMATE SUCH AN IMPROVEMENT REPRESENTS THE UPPER LIMIT OF YUGOSLAVIA'S POSSIBLE ADJUSTMENT EFFORT. WE ALSO MUST ENSURE THAT OUR JOINT ACTIONS THIS YEAR SUFFICE TO CARRY YUGOSLAVIA THROUGH THE SEASONALLY ADVERSE FIRST HALF OF 1984. GIVEN THAT RESERVES CURRENTLY APPEAR TO BE AT ABSOLUTELY MINIMAL LEVELS, THERE MUST BE AN OPPORTUNITY TO

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REBUILD THESE RESERVES SUFFICIENTLY SO THAT NO NEW ARREARS EMERGE AT THE TURN OF THE YEAR.

IN THIS CONNECTION, I FIND YOUR EMPHASIS ON THE PHRASE "AS PRESCRIBED IN YOUR TELEX DATED FEBRUARY 7, 1983" IN YOUR LETTER TO THE MANAGING DIRECTOR IMPORTANT. WE DESCRIBED THE FINANCING PACKAGE AT THAT TIME ON THE BASIS OF THE FACTS AVAILABLE TO US. THESE FACTS SHOWED THAT THE ESTIMATED DEBT TO BANKS WITH 1983 MATURITIES WAS 1.4 BILLION DOLLARS. WITH A ROLL-OVER OF MATURING DEBT, THERE STILL REMAINED A FINANCING GAP, GIVEN THE CURRENT ACCOUNT AND RESERVE REQUIREMENTS SET OUT ABOVE, OF SIX HUNDRED MILLION DOLLARS. EACH ELEMENT, THE ROLL-OVER OF ~~MATURING~~ DEBT AND THE PROVISION OF NEW MONEY TO FILL THE FINANCING GAP IS AN INTEGRAL PART OF OUR PRESCRIPTION.

OF COURSE ALL OF US WOULD BE PLEASED IF THE SITUATION IMPROVED TO A GREATER EXTENT THAN NOW SEEMS REALISTICALLY POSSIBLE. IF THE OBJECTIVE FACTS INDICATE THAT THIS INDEED IS SO, WE COULD SEE THE MINIMAL REQUIREMENT OF SIX HUNDRED

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MILLION DOLLARS NEW BANK FINANCING CHANGING IN A DOWNWARD DIRECTION. HOWEVER, IT APPEARS TO US MUCH MORE LIKELY THAT ANY ERRORS WOULD TEND TO BE IN THE OPPOSITE DIRECTION. WITH THIS UNDERSTANDING OF HOW WE VIEW THE PARAGRAPHS OF YOUR LETTER THAT DEAL WITH THE CONDITIONS FOR DISBURSEMENT AND THE AMOUNTS OF NEW FINANCING TO BE PUT IN PLACE, WE FEEL THAT WE CAN MOVE AHEAD AND PUT THE DISCUSSION OF THE THIRD YEAR OF THE STAND-BY ARRANGEMENT FOR YUGOSLAVIA ON THE BOARD'S CALENDAR FOR MARCH 11, 1983. HOWEVER, I MUST WARN YOU THAT THERE IS A GREAT LIKELIHOOD THAT THE BOARD WILL MAKE THE RELEASE OF THE SECOND PURCHASE OF SDR 150 MILLION, WHICH WOULD BECOME AVAILABLE TO YUGOSLAVIA ON MAY 15, 1983, CONTINGENT UPON THE SATISFACTORY COMPLETION OF YOUR EFFORTS 12 DAYS LATER.

AGAIN, WITH MUCH APPRECIATION FOR YOUR EFFORTS, AND BEST WISHES FOR YOUR FORTHCOMING MEETING.

SINCERELY YOURS,

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~~MR. EBERT~~

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WILLIAM B. DALE

ACTING MANAGING DIRECTOR

INTERFUND

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TELEX NO.:

CABLE ADDRESS:

DRAFTED BY NAME (TYPE): MRS. H. B. JUNZ

EXT.: 72967

DEPT.: EUR

DATE MAR. 4, 1983

AUTHORIZED BY NAME (TYPE): MR. WILLIAM B. DALE

AUTHORIZED BY NAME (TYPE):

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W. B. Dale

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1983 MAR -4 PM 8:48

REPEAT TO:

Mr. Fulvio Dobrich
c/o Robinson
Manufacturers Hanover
London
Telex: 898-371

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

DIVISION OF INTERNATIONAL FINANCE

DATE 3/4/83

ccs Ms. Ripley
CED.

TO Helen Junz

FROM **TED TRUMAN** LAW

Attached is the proposed language of the waiver for the Yugoslav loans.

Attachment

You will not believe this - the Fed is still messing with this text - and the Yugoslavs in the meantime have accepted it & advised the banks as well as Leutwiler. So the Fed is stopping their fuss.

Too good to be true?

[illegible]

URGENT

FURTHER TO YOUR CONVERSATION OF TODAY WITH BILL TUDOR-JOHN AND MYSELF
WE ENCLOSE THE FOLLOWING WORDING FOR THE PROPOSED AMENDMENT. PLEASE
REVIEW THE TEXT AND EXPLAIN THE CLAUSES TO THE YUGOSLAVS.
PLEASE CALL ME TOMORROW WITH ANY QUERIES YOU MAY HAVE

QUOTE:

''NEW 16 (3)

HOWEVER THE COVENANTS IN CLAUSES 16 (1) AND 16 (2) SHALL NOT
APPLY TO ANY ENCUMBRANCE CREATED BY THE BORROWER ON OR AFTER
15TH FEBRUARY 1983 OVER (1) GOLD OWNED OR HELD BY THE BORROWER
AND/OR (2) FOREIGN CURRENCY OWNED OR HELD BY THE BORROWER
(INCLUDING FOREIGN CURRENCY LOANS PROVIDED BY MEMBERS OF THE
BANK FOR INTERNATIONAL SETTLEMENTS (''BIS'') OR BY THE
INTERNATIONAL MONETARY FUND) TO SECURE EXTERNAL INDEBTEDNESS
ISSUED , CREATED OR ASSUMED BY THE BORROWER IN AN AGGREGATE
PRINCIPAL AMOUNT NOT EXCEEDING AT ANY TIME
DLRS 500,000.000 SUCH EXTERNAL INDEBTEDNESS HAVING CONTRACTUAL
REPAYMENT DATES FALLING ON OR BEFORE 31ST MARCH 1984
AND BEING OWED TO BIS AND/OR TO ANY CENTRAL BANK MEMBER OF
BIS AND/OR TO ANY U.S. GOVERNMENTAL MONETARY AUTHORITY''

UNQUOTE

REGARDS
PETER GREER
CHASE MANHATTAN BANK
LONDON

8954681CMB G
+
197668 FEDR UT

Subject

Office Memorandum

TO : Mr. Polak DATE: March 4, 1983

FROM : L. A. Whittome

SUBJECT : Yugoslavia

Thank you for sending me a draft of your paper. I thought it would be helpful if Mrs. Junz and I were to send comments separately; to the extent we disagree you can choose—to the extent we agree you can still consider us mistaken!

My main concern is that you have managed to condense our paper into five pages elegantly and accurately but you have not given your colleagues another perspective. I would have thought that you might gain more by being 'laid back' and giving a political/economic background.

The program can be criticized on a number of grounds including:

(a) we have 'wasted' two years;

(b) the current account forecast for 1983 is only an unsupported hope, with incomes policy the only immediate instrument to hand to press on domestic demand;

(c) the financing program is extraordinarily tight making it all too likely we shall have to repeat all this in a year's time;

Etc.

A possible alternative approach to that you have used would be:

A. to argue that the adjustment effect was considerable in '80, '81 and '82 and would, without the sharp turn round in the capital account, now be being judged to be largely on track;

B. the drastic weakening of the capital account is primarily a result of geography, political association (a more elegant phrase is needed) and the general realization by banks that they were overexposed to sovereign risks;

C. this capital account deterioration was not a change between one day and another but steady and gradual with periods of quiet during which it was possible to hope that the worst was over. Like almost all other governments the Yugoslavs woke up relatively late to the critical situation they faced and then, in a strongly decentralized state, decision takes time. Moreover, the rotation system builds in discontinuities which are valuable over time but weakening at certain points in time;

D. they concluded that they should stand on their own feet and remain determined to do so with a minimum of essential help from their friends;

E. they have decided that within their basic self-management system they must introduce a series of basic changes to ensure greater incentives and more discipline. For that reason they are determined:

(i) to reduce price distortions;
(ii) to keep credit tighter;
(iii) to maintain strict fiscal discipline;
(iv) to press hard on real personal incomes.

They are glad that the Fund staff agreed.

F. These measures will require time to be fully effective and thus the need for temporary help but the measures are designed to strengthen the economy and keep open its links with the rest of the world. The alternative more drastic action could have put these goals in jeopardy. The Yugoslavs are well aware that it may take more than one year to realize their aims.

One weakness of this approach is that it sidesteps the very awkward large surplus that has arisen with the CMEA area--a point you don't mention either. If you duck this issue, others won't and it might be best to write about the geopolitic position and consequent ties and to refer to the important employment-creating effects of CMEA trade. Then you could end up emphasizing the vital importance the government attaches to keeping open its links to all countries and to the fact that it sees Yugoslavia's future as full integration in the world trade and financial situation (whatever a phrase like that means, it can be made to sound good).

cc: Mrs. Junz
Ms. Ripley

INTERNATIONAL MONETARY FUND

Mr Whittome

This still needs editing but I would appreciate your comments on it in this form.

Many thanks.

JJP

J. J. Polak

ROUGH DRAFT YUGOSLAVIA 3/4/1983

JJP

It has been only four months since the Board last discussed the stand-by arrangement with Yugoslavia (on November 12, 1982), but a great deal has happened in these four months.

It became clear, in the last months of 1982, that, in spite of additional adjustment measures taken since the new government took office in mid-1982, there was no possible way in which, in the short run, compensation for a radical change in the capital account of the balance of payments could be found by an improvement in the current account. Moreover, the actual improvement over 1981 in the current account turned out to be much smaller than had been expected until close to the end of 1982: in transactions with the convertible currency area, there was a satisfactory improvement of about \$ 0.5 billion in the first half of the year, but none in the seasonally more important second half, so that for the year as a whole the improvement was small (from \$ 1.8 billion to \$ 1.4 billion) nearly \$ 1 billion less than had been expected.

But even without this disappointing performance of the current account it became increasingly evident that it would be necessary to deal directly with the question of capital outflows as large scale maturities occurred in the first half of 1983, short term credits ran out rather than being rolled over, and new credits became increasingly difficult to negotiate. The Yugoslav authorities were, and are, determined not to approach this situaton by means of rescheduling of private credits or Paris Club arrangements for government or government-guaranteed debt, and to accept the sacrifices for the population that follow from this decision. This attitude of the Yugoslav authorities has been welcomed by the governments of friendly industrial countries, and in the last few months a major international effort has been mounted to make it possible for Yugoslavia to overcome the difficulties of its capital account for the next few years without having ~~the country taking~~ recourse ~~to the~~ rescheduling ~~route~~. This has involved interrelated actions on the part of the ministries of finance, the export credit agencies and the central banks of a large number of countries; the BIS; the World Bank; and the commercial banks with large exposure in Yugoslavia. The Fund staff has played a key role in orchestrating the highly complex sets of negotiations that were necessary to bring this whole effort to a reasonably satisfactory conclusion. It has undertaken this extraordinary task with alacrity and has stuck with it in the face of many disappointments and obstacles from many sides. On behalf of the Yugoslav authorities, I want to express deep appreciation for everything the staff has done for the country.

A key element in the network of financial arrangements that is now falling into place is, of course, the agreement with the Fund on the program for 1983 (the third year of Yugoslavia's three year stand-by arrangement), which is also necessary to unlock the Fund's component in the supply of finance for 1983. At SDR 554 million (133 percent of the present quota) this is by no means a negligible amount in the total financing program. In recognition of the greater seasonal need of Yugoslavia in the early part of the year, the quarterly distribution is slightly front-loaded, with SDR 325 million in the first, and SDR 229 million in the second half of the year.

With respect to the program, Chart I of the staff paper summarizes in a simple, telling way the areas where the program of the past two years has, and those where it has not, come up to the targets and expectations. For credit and the federal budget, the objectives were achieved. The current account balance objective for the first year was approximately reached, but the much more ambitious one for the second year was not. The hope to bring inflation down sharply from the previous year's rate was frustrated in both 1981 and 1982. For 1983, the chart shows an expected price rise of 30 percent, which is only slightly below the experience of 1982. As the staff explains on page 26, their forecast is higher than the amended official price projections of some 25 percent, and both are higher than the earlier figure of 20 percent to take account of the effects on prices of the important structural adjustments in certain prices recently introduced and the policy adopted with respect to the exchange rate. A final point that Chart 1 makes very clear is that the disappointments with respect to prices and the balance of payments cannot be attributed to excessive domestic absorption: on the contrary, the growth of the real social product declined in both 1981 and 1982, as against a small programmed increase for each year. But for 1983, a radically more conservative stance has been adopted as inevitable, with real social product expected to fall by 2.6 percent (Table 5, staff forecast).

It is clear from these few indications of performance that, in spite of policy actions taken on many points in the past two years, Yugoslavia had not yet put into place the full instrumentarium of policies that would enable it to have non-inflationa balanced growth with a satisfactory balance of payments. As the staff points out, part of the delays in this connection are related to the difficulties of policy implementation in a federal state.

In designing a program for 1983, the Yugoslav authorities and the staff have made a major effort to design additional measures of policy control to enhance incentives and productivity and to counteract certain built-in inflationary tendencies.

To deal with the latter problem, the measures to control, on a decentralized basis, the level of nominal workers' incomes have been tightened and it has been accepted that centralized regulation will be introduced if these measures do not achieve the desired result promptly. On prices, further measures are being taken to weed out the remaining distorting effects of price controls, in spite of the short-run inflationary impact of such measures. In the area of credit policy - where end-of-period targets have always been met - a number of changes and refinements have been introduced. One of these is the adoption of ceilings based on the average of three end-of-month data for each quarter. A second is the substitution of "net domestic assets" of the banking system for the previously used "domestic credit expansion". A third is the penalization of excessive inter-enterprise credit by means of a charge on the lending enterprise. Such credit in the form of unpaid bills had become a source of finance that permitted uneconomic enterprises to continue to operate unchecked by indirectly draining resources from the banking system. The control over credit expansion will also require further adjustment of interest rates, brought about largely by a significant increase in the cost of funds to the banking system. There has been a tendency in the past to pursue the objective of positive real interest rates on the basis of optimistic views as to the expected rate of inflation. The mid-year review will serve to ensure that any

For the creditor enterprise these credits counted towards 'surpluses' for the purposes of distributing income possible tendency in that direction in 1983 will be quickly corrected.

In the case of fiscal policy the risk is not so much that expenditure will outrun receipts; the overall budgets of the federation and the other public sector entities are traditionally in balance. Rather, the risk is that increases in receipts due to inflation will be passed through into increased expenditure. The staff has devised an interesting technique (needed on account of the lag in data on government expenditure) to ensure that in future excess receipts will be frozen as an anti-inflationary measure.

Finally, substantial further modifications had to be introduced in the area of exchange and trade policies. Agreement has been reached on additional real depreciation of the dinar (see page 24). In addition, it was necessary to ensure that the regulations on the allocation of export proceeds were such as to give exporters access to foreign exchange to buy the necessary imported inputs and to maintain roughly the benefit they derived before from selling retained foreign exchange to importers.

With this package of measures it is estimated that the current account deficit with the convertible area can be reduced by about $ 1 billion in 1983, to a figure of about $ 0.5 billion. With full realization of the plans for the financial flows, this would permit a build-up in reserves of about $ 3/4 billion, which is absolutely necessary for the country to face the early part of 1984.

The close cooperation between the Fund and Yugoslavia is beginning to show results, even if these results are not forthcoming as rapidly as the two partners had hoped. In the circumstances, there is much to be said for the decision that has already been taken by the Yugoslav Government that it will seek stand-by arrangements with the Fund for 1984 and beyond. The financing agreements with governments and banks are predicated on the continued existence of such arrangements; but it seems evident that their value to Yugoslavia extends well beyond these formal considerations.

=========

cc: HCJ
DR
CED

MANUFACTURERS HANOVER TRUST COMPANY

270 PARK AVENUE, NEW YORK, N.Y. 10017

DOUGLAS E. EBERT
EXECUTIVE VICE PRESIDENT

February 28, 1983

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Re: Yugoslavia

Dear Mr. de Larosiere:

We write in response to your telex, dated February 7, 1983 (Subject : Yugoslavia), a copy of which is attached for ease of reference. We do so in our capacity as the Chairman of the International Coordinating Committee (the "ICC") which has been established in order to communicate with banks and financial institutions (the "Creditors") having claims on certain Yugoslav obligors.

As you know, since the meeting of certain major banks convened by the Fund in Zurich on January 17, 1983, the ICC has been established and initial steps have been taken toward arranging financing between the Creditors and Yugoslavia that will be consistent with the requirements stated in your telex. The ICC established an economic Sub-Committee which has prepared an interim report entitled "Yugoslavia : Foreign Debt, Economic Policy and Financing Requirements in 1983." The ICC has established other appropriate sub-committees, including national committees of known Creditors. Furthermore, support has been requested from the known Creditors pursuant to a Memorandum of Understanding that prescribes a 90-day extension of principal installments of Yugoslav indebtedness coming due during the period from January 18 to March 31, 1983 (including installments of principal on medium and long-term indebtedness). A copy of the telex incorporating the aforesaid Memorandum is attached for your information.

The ICC wishes to inform you that it is exerting its best efforts to facilitate the development of financing arrangements which will satisfy the prescription for required commercial bank financing in 1983 stated in your telex of February 7, 1983. It wishes to inform you that on the basis of the economic information currently available to the ICC, it is of the opinion that the maximum amount of new money to be made available to Yugoslav obligors by the Creditors need not exceed U.S. $600 million, and may in fact be less.

Toward this end, the ICC has initiated discussion with the known Creditors on the terms and conditions for the specific facilities which will form the basis for the financing arrangements that are to be made available to Yugoslavia.

The ICC anticipates that, among other things, the following general requirements will have to be fulfilled at or prior to the effective date of the implementation of such financing arrangements with Yugoslavia:

(a) Consummation of the Berne Accords. Execution by each Government participant in the meetings held on January 18-19, 1983 of satisfactory documents extending or refinancing, on terms no more favorable than the terms on which the Creditors agree to extend or refinance, comparable installments of Yugoslav indebtedness owing to it as well as principal installments which are due and payable in 1983 by Yugoslav obligors but which are guaranteed by such Government or its agencies or instrumentalities;

(b) BIS Facility. Execution of satisfactory documentation providing for a $500 million BIS credit facility to be available to Yugoslavia during 1983;

(c) IMF Extended Fund Facility (Third Tranche). The Executive Board of the Fund, by a satisfactory minute, shall have approved the disbursement of the third tranche of the existing Extended Fund Facility currently in force between the Fund and Yugoslavia (at least SDR 300 million of the tranche to be available in the first half of 1983 and the remainder to be available in the second half of 1983);

(d) World Bank Arrangement. Execution by the International Bank for Reconstruction and Development and Yugoslavia of a satisfactory agreement providing for structural adjustment loans in the sum of not less than $200 million; and

(e) Curing Arrears. All obligations for (i) all interest payments on all indebtedness due on or prior to the date on which the financing arrangements become effective, and (ii) the payment of all principal which fell due prior to January 18, 1983 must be paid in full.

It is imperative that the best efforts of all parties concerned be made to exhort the Yugoslav obligors to remedy as quickly as possible the considerable arrearages of (i) principal and interest which fell due prior to January 18, 1983 and (ii) interest due on all indebtedness (matured and unmatured) outstanding after that date (until such time as principal which matured prior to January 18 is retired).

The ICC intends to proceed to conclude as soon as possible our deliberations on terms and conditions with respect to the 1983 financing arrangements. We expect that soon thereafter we shall be able to report to you that terms and conditions acceptable to both Yugoslavia and the Creditors have been agreed.

In order to assist us to move forward the negotiations with all parties concerned, we would appreciate your confirmation that you will recommend the Yugoslav request for advancing the next tranche under the Extended Fund Facility Agreement to the IMF Executive Board.

If the ICC or the undersigned can be of further assistance to you, please let us know. You may feel free to call Douglas E. Ebert, Executive Vice President (212-286-4378) or Fulvio V. Dobrich, Vice President (212-286-4777).

Very truly yours,

MANUFACTURERS HANOVER TRUST COMPANY
Chairman of the International
Coordinating Committee, on behalf of the
International Coordinating Committee
which includes

Bankers Trust Company
Barclays Bank International Limited
Citibank, N.A.
Creditanstalt Bankverein
Istituto Bancario San Paolo di Torino
Manufacturers Hanover Trust Company
Morgan Guaranty Trust Company of New York
Societe Generale
Swiss Bank Corporation
The Bank of Tokyo, Ltd.
The Chase Manhattan Bank, N.A.
The Royal Bank of Canada
Westdeutsche Landesbank Girozentrale

By: ______________________
Douglas E. Ebert,
Executive Vice President

REPEAT TO:

Mr. Fulvio Dobrich
c/o Robinson
Manufacturers Hanover
London
Telex: 898-371

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MR. EBERT
CHAIRMAN OF INTERNATIONAL COORDINATING COMMITTEE FOR
BANK ASSISTANCE TO YUGOSLAVIA
MANUFACTURERS HANOVER
NEW YORK

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DEAR MR. EBERT,

I MUCH APPRECIATE THE FACT THAT WE HAVE BEEN ABLE TO AGREE ON LANGUAGE SETTING OUT THE ICC'S COMMITMENTS TO WORK TOWARD ENSURING THAT WHAT WE CONSIDER THE MINIMAL ELEMENTS OF A FINANCING PACKAGE FOR YUGOSLAVIA WILL BE PUT IN PLACE. HOWEVER, SO THAT NO MISUNDERSTANDINGS ARISE BETWEEN US AND YOUR GROUP, I WOULD LIKE TO CLARIFY A NUMBER OF POINTS.

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1 PLEASE KEEP SIGNATURE IN SPACE ALLOWED.
2 Use OCR-B210 sphere and set typewriter for DOUBLE SPACING - No other markings acceptable.
3 Use 10 pitch type (Pica)

MR. EBERT

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MR. EBERT

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REBUILD THESE RESERVES SUFFICIENTLY SO THAT NO NEW ARREARS EMERGE AT THE TURN OF THE YEAR.

IN THIS CONNECTION, I FIND YOUR EMPHASIS ON THE PHRASE "AS <u>PRESCRIBED</u> IN YOUR TELEX DATED FEBRUARY 7, 1983" IN YOUR LETTER TO THE MANAGING DIRECTOR IMPORTANT. WE DESCRIBED THE FINANCING PACKAGE AT THAT TIME ON THE BASIS OF THE FACTS AVAILABLE TO US. THESE FACTS SHOWED THAT THE ESTIMATED DEBT TO BANKS WITH 1983 MATURITIES WAS 1.4 BILLION DOLLARS. WITH A ROLL-OVER OF MATURING DEBT, THERE STILL REMAINED A FINANCING GAP, GIVEN THE CURRENT ACCOUNT AND RESERVE REQUIREMENTS SET OUT ABOVE, OF SIX HUNDRED MILLION DOLLARS. EACH ELEMENT, THE ROLL-OVER OF MATURING DEBT AND THE PROVISION OF NEW MONEY TO FILL THE FINANCING GAP IS AN INTEGRAL PART OF OUR PRESCRIPTION.

OF COURSE ALL OF US WOULD BE PLEASED IF THE SITUATION IMPROVED TO A GREATER EXTENT THAN NOW SEEMS REALISTICALLY POSSIBLE. IF THE OBJECTIVE FACTS INDICATE THAT THIS INDEED IS SO, WE COULD SEE THE MINIMAL REQUIREMENT OF SIX HUNDRED

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MILLION DOLLARS NEW BANK FINANCING CHANGING IN A DOWNWARD DIRECTION. HOWEVER, IT APPEARS TO US MUCH MORE LIKELY THAT ANY ERRORS WOULD TEND TO BE IN THE OPPOSITE DIRECTION. WITH THIS UNDERSTANDING OF HOW WE VIEW THE PARAGRAPHS OF YOUR LETTER THAT DEAL WITH THE CONDITIONS FOR DISBURSEMENT AND THE AMOUNTS OF NEW FINANCING TO BE PUT IN PLACE, WE FEEL THAT WE CAN MOVE AHEAD AND PUT THE DISCUSSION OF THE THIRD YEAR OF THE STAND-BY ARRANGEMENT FOR YUGOSLAVIA ON THE BOARD'S CALENDAR FOR MARCH 11, 1983. HOWEVER, I MUST WARN YOU THAT THERE IS A GREAT LIKELIHOOD THAT THE BOARD WILL MAKE THE RELEASE OF THE SECOND PURCHASE OF SDR 150 MILLION, WHICH WOULD BECOME AVAILABLE TO YUGOSLAVIA ON MAY 15, 1983, CONTINGENT UPON THE SATISFACTORY COMPLETION OF YOUR EFFORTS 12 DAYS LATER.

AGAIN, WITH MUCH APPRECIATION FOR YOUR EFFORTS, AND BEST WISHES FOR YOUR FORTHCOMING MEETING.

SINCERELY YOURS,

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WILLIAM B. DALE

ACTING MANAGING DIRECTOR

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TELEX NO.: CABLE ADDRESS:

DRAFTED BY NAME (TYPE): MRS. H. B. JUNZ EXT.: 72967 DEPT.: EUR DATE MAR. 4, 1983

AUTHORIZED BY NAME (TYPE): MR. WILLIAM B. DALE

AUTHORIZED BY NAME (TYPE): (**)

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W B Dale

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Office Memorandum

March 3, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

Sam Cross telephoned this morning saying that in the last couple of days two further negative clauses had been discovered, one given to the Deutschebank and one given to the National Bank of Kuwait. He said that, the position was further complicated by the fact that up to now the Fed had proposed using the relatively simple language to obtain waivers that had been used in the cases of Argentina and Mexico but apparently,because of the internal difficulties of the Yugoslavs, the language used in the case of the Yugoslav pledges was a lot more complicated, so that the general waivers used for other countries were inadequate.

The lawyers have only now seen this difficulty and as a result there will be today a series of meetings between the New York Fed, the American banks and their lawyers, some of whom are in London. There is a little hope that some time later today a form of waiver,which will satisfy all concerned,will have been drafted. If this can be done, the Fed will ask us for immediate help in having it explained to and agreed by the Yugoslavs. Cross said that they have ceased to have any confidence in their ability to work through the National Bank and would want to use our contacts with persons high up in the government service.

I then asked Cross whether there was now any hope of meeting the deadline for the BIS meeting on the 7th March. He said that if an extremely rapid response could be obtained from the Yugoslavs, then it was possible that the BIS might agree that, subject to the final negotiations on the negative pledge clauses and subject also to the Fund Board approving the proposed 1983 program, they would go ahead on the whole $500 million. He said that the final decision was in Washington's hands rather than New York's and he would not like to bet on the outcome. However, he had and would continue to press our views,which he shared,on the urgency of the situation.

I took the opportunity of telling him where we stood with the banks and in particular of our feeling that we needed to firm up the $600 million figure.

L. A. Whittome

cc: The Managing Director (o/r)
The Acting Managing Director
Mrs. Junz
Ms. Ripley
Mr. Carter

Office Memorandum

March 3, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

I have had a number of conversations with Ambassador Loncar today about the new difficulties that have arisen over the negative pledge clauses. He in turn has phoned Mr. Volcker to ask for his personal intervention and late this evening was phoned back to be told that all was in order.

It is also agreed that the text of the new waiver should be telexed tomorrow to Mr. Smole who will ensure that it is dealt with whatever hour it reaches Belgrade. Presumably the message to Mr. Smole will need to emphasize that the National Bank must convey its agreement to the text to Mr. Leutwiler (at Zurich and Basle) by Sunday, March 6.

L. A. Whittome

cc: Mrs. Junz
Ms. Ripley
CED

Mr. Whittome

Office Memorandum

March 2, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia - IBRD

Ram Chopra called me today inquiring about the status of our Yugoslavia efforts. He said that during the IBRD management review of Yugoslavia in connection with the projected SAL, Ernie Stern had said that for the Bank to go ahead, a financing package containing US$600 million new money from commercial banks would be a minimum. He wanted to know whether he should convey this to Douglas Ebert. I told him that I would get back to him once we had a better sense about when and how this message should be conveyed for maximum tactical return. Upon discussing this with Mr. Whittome, it was decided that the optimum moment would be just before the March 8-9 meeting.

Helen Junz

cc: Mr. Whittome
Ms. Ripley
Mr. Lewis

Office Memorandum

TO : Mr. Whittome

DATE: March 2, 1983

FROM : Helen Junz

SUBJECT : Yugoslav Conversation with Mr. Douglas Ebert

I talked with Mr. Ebert today regarding both timing and content of his possible reply to the Managing Director's cable. I am becoming somewhat concerned about the game he may be playing. He definitely does not want to take this up at the next ICC meeting. Therefore, he is seeking other ways and means to satisfy the requirements set out in the cable. I am afraid that he is likely to send us something that cannot be interpreted as anything more than a perconal commitment. I, therefore, think it both important that we proceed--as agreed--to contact Brian Grimmond and also to get the Yugoslavs to address the ICC on this issue. I shall be calling Kirbus and Popvic tomorrow regarding this matter. I believe that Mr. Ebert has the leeway to be more specific about the date and that part probably can be resolved.

cc: HBJ

Pl speak to Grimmond
WW
3/3

On the negative gold pledge matter he told me that they had followed our advice and that Harry Taylor had contacted the top level of the French banks concerned. So there is some hope there too.

cc: Ms. Ripley
Mr. Lewis

Mr. Whittome

Office Memorandum

March 2, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

I had a call from the U.S. Treasury telling me that they believe the BIS loan for Yugoslavia to be "on track". Mr. Leland is trying to reach Camdessus again today. I explained the position of the French banks vis-a-vis the negative gold pledge, pointing out that this was a problem between commercial banks solely. They will pass on to the French Treasury that the negative gold pledge issue should not be held hostage by the French banks in order to give them at best some questionable leverage on the other commercial banks.

Helen Junz

cc: Mr. Whittome
Ms. Ripley
Mr. Lewis

cc: HBJ
Can we help? should you see Joyce? cc: HBJ DR CED
at the least these sort of cables can't help.
1/Mr/13

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I.M.F.

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CABLE
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ORIG: EUR
CC: MD
DMD
MR. N. CARTER

INTERFUND WSH

EXCREDCORP OTT

EDC2737 MAR.01/83

TO: YUGOSLAV GROUP FOR COORDINATION WITH THE INTERNATIONAL ADVISORY GROUP FOR YUGOSLAVIA, BELGRADE, YUGOSLAVIA

TO: SWISS MINISTRY OF FOREIGN AFFAIRS, BERN SWITZERLAND
ATTN: SECRETARY OF STATE PROBST

TO: IMF, WASHINGTON, D.C.
ATTN: DIRECTOR, EUROPEAN DEPT.

CC: YUGOSLAVIAN EMBASSY, OTTAWA, ONT.

CC: CANADIAN EMBASSY, BELGRADE, YUGOSLAVIA

CC: NATIONAL BANK OF YUGOSLAVIA, BELGRADE, YUGOSLAVIA
ATTN: MIOGRAG VELJKOVIC, DEPUTY GOVERNOR

WE HAVE NOT YET RECEIVED A RESPONSE TO OUR FEBRUARY 9TH TELEX AND FOR THE BENEFIT OF THE ASSOCIATED BANKS OF YUGOSLAVIA AFFECTED BY YOUR TELEX REQUEST OF FEBRUARY 3RD AS WELL AS FOR OUR OWN IN INTEREST, WE SHOULD APPRECIATE RECEIVING YOUR COMMENTS AS SOON AS POSSIBLE. WE SHOULD LIKE TO POINT OUT THAT TWO MORE YUGOSLAV BANKS, IN ADDITION TO PRIVREDNA BANKA ZAGREB (LONGSTANDING OVERDUES) ARE CURRENTLY IN ARREARS ON PAYMENTS OF PRINCIPAL PENDING RECEIPT OF YOUR ACCEPTANCE OF THE CONDITIONS ON WHICH EDC IS PREPARED TO AGREE TO A 90-DAY POSTPONEMENT ON PRINCIPAL PAYMENTS FALLING DUE DIRECTLY TO EDC DURING THE PERIOD JANUARY 18, 1983 THROUGH MARCH 31, 1983.

WE REMIND YOU TO PLEASE ADDRESS YOUR RESPONSE TO J. ARES, SENIOR VICE PRESIDENT, EXPORT FINANCING GROUP.

P. KAVANAGH
ASST. VICE PRESIDENT, EUROPE DIV.
EDC OTTAWA TLX 0534136
FH

INTERFUND WSH

EXCREDCORP OTT

Office Memorandum

March 1, 1983

MEMORANDUM FOR FILES

Subject: Yugoslavia

1. The U.S. Treasury have no intention of giving any short-term bridging loan to Yugoslavia.

2. Leland is still seeking to talk to Camdessus on the French banks and the negative pledge; he has not yet succeeded in doing so.

3. The U.S. Treasury still maintain that Bankers Trust and the French banks have received no requests from the Yugoslavs for a waiver. I said that I thought they were mistaken--or rather I hoped that they were.

L. A. Whittome

cc: Mrs. Junz
Ms. Ripley
CED

Seen by I.O.

IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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Manufacturer's Hanover Trust Company
International Division
270 Park Avenue
New York, New York
Attention: Mr. Douglas Ebert

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CC: EUR
MD
DMD
MR. N. CARTER

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I much appreciate the efforts that you and your group must have made in order to be able to provide me with your letter of February 28, which meets the deadline stated in my letter to you dated February 7.

However, I much regret to have to tell you that this letter is too vague for me to feel able to recommend the entire financing package to the Board at this time. I, therefore, have reluctantly decided to postpone the Board discussion of the Yugoslav program, which had been on the calendar for March 7, until March 11 in order to give you and your group further time at your meeting on March 8-9 to see whether you could provide me with the minimum understanding needed for me to proceed.

This minimum, as I see it, requires, first, your Committee's commitment to concluding the proposed loan for Yugoslavia so as to have it ready for disbursement by May 27, 1983. Second, we cannot proceed on the

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IMF OFFICIAL MESSAGE
WASHINGTON, D. C. 20431

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basis of the ICC's opinion that "new bank financing need not exceed US dollars 600 million and may in fact be less." On the basis of our assessment of the available information, which appears to have been accepted also by the economic committee of the bank advisory group, the figure of US dollars 600 million new bank financing is a bare minimum. The US dollars 1/2 billion current account deficit, which underlies this figure, incorporates the maximum adjustment that it is possible for Yugoslavia to achieve in the conditions of 1983. Thus, the US dollars 600 million does not allow for any margin of error and cannot be taken as an amount from which any downward bargaining can proceed.

I fully understand that you wish to keep up pressure on the official export credit institutions in the major countries to help put the financing package on the soundest possible basis. As you know, the Swiss who chaired the meetings of countries which joined together

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IMF OFFICIAL MESSAGE

WASHINGTON, D. C. 20431

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in the economic cooperative action on behalf of Yugoslavia, as well as we ourselves and others, are supporting these efforts actively. However, I must warn you that in my judgment we are running out of time and we must all take our responsibilities. Slippage of the date at which the Executive Board of the IMF could take up the Yugoslav program beyond March 11 would jeopardize all our efforts. I, therefore, hope that you will be able to have your Committee agree that, on the basis of currently available information, new bank financing needs to be US dollars 600 million; I would understand it if you feel compelled to add that, if objective facts later showed that this amount were too high or too low, the ICC would revise its view of the new bank financing to be made available in the light of the new facts.

If you find it helpful, I would be willing to arrange for one of my collaborators to come to your

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WASHINGTON, D. C. 20431

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New York

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meeting to deliver and elucidate this message in person. I very much hope, however, that it will be possible for you to inform me of your ability to meet these minimum requirements as soon as possible and if practicable before March 6. I am, of course, aware that you cannot commit the banks outside your group, but I do need your assurance that the ICC itself would not support a package that does not incorporate these minimum elements.

Sincerely yours,

J. de Larosiere

Managing Director

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